

**Preliminary Submission**

**By**

**Metro Tasmania Pty Ltd**

**To The**

**Government Prices Oversight Commission**

**2003 Review Of**

**Metro's Pricing Policies.**

**23 January 2003**

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## 1 INTRODUCTION

### 1.1 Background

As part of its commitment to the National Competition Policy Agreements, Tasmania established the Government Prices Oversight Commission (GPOC) in January 1996. This body is intended to incorporate all the elements required of a prices oversight body described in the Agreement signed by all Australian Governments.

The Commission is required to investigate and report on the pricing policies of Government Business Enterprises (GBEs) and State Owned Companies (SOCs) that are monopoly, or near-monopoly, suppliers of goods and services. In October 2002, the Treasurer directed the Commission to conduct its third investigation into the pricing policies of Metro Tasmania Pty Ltd, formerly the Metropolitan Transport Trust (hereafter referred to as Metro). Metro is the supplier of scheduled bus services in the cities of Hobart, Launceston and Burnie.

In undertaking the investigations the Treasurer requested the Commission review the appropriateness of Metro's pricing policies and draw conclusions from comparisons with the urban public transport pricing policies of other operators, both within Tasmania and elsewhere in Australia. The Commission was also requested to consider the impact on Metro's costs following requests for changes to the current route service.

In investigating the pricing policies of Metro, the Treasurer has asked the Commission to consider a range of matters<sup>1</sup>, taking into account the pricing policies of other operators both within Tasmania and elsewhere in Australia as well as assessing the financial and patronage implications of any proposed recommendations.

The main elements of the terms of reference are outlined below, and form the framework for this submission by Metro.

- Pricing Policies – review the pricing policies associated with the provision of scheduled route services in Hobart, Launceston and Burnie.
- Efficiency – review the efficiency with which public transport services are currently delivered by Metro.
- Effectiveness of services – review the effectiveness of the services delivered and the pricing policies adopted by Metro, in terms of delivering the public transport outcomes that the Government wants.
- Indicators – develop performance indicators of efficiency and effectiveness and consider Metro's performance by comparison to others, both within Tasmania and elsewhere in Australia.

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<sup>1</sup> The specific terms of reference for the Review are at Attachment A.

- Effectiveness of purchasing arrangements - review current arrangements the Government has for purchasing services from Metro, including the incentive mechanisms, to ensure that the Government gets what it wants.
- Funding for service changes – consider the impact on Metro's costs associated with requests for service changes;
- The Metro Index – review the adequacy of the Metro Index in reflecting movements in Metro's costs and make recommendations regarding a suitable index for the next 3-5 year period.

In undertaking its investigation, the Commission is also required to take into account the matters referred to explicitly in Section 31 of the Government Prices Oversight Act.

The terms of reference do not include consideration of charter services by Metro that operate within an open market environment.

## **1.2 This Submission**

Metro welcomes this third GPOC investigation as a means of stimulating interest and discussion on appropriate future pricing arrangements and related matters.

Metro is aware of the need for GPOC to obtain formal submissions from Metro and others to enable it to effectively meet its timetable for consultation and reporting.

Metro is unable to provide its complete submission to GPOC at this point in time. Metro has engaged consultants to provide advice on the efficiency of Metro's operations by comparison to other operators and industry benchmarks. It has not proved possible for the consultants to prepare their report within the time-frame that has been made available following the release of the terms of reference, particularly with the Christmas holiday period intervening. Metro has thus decided to provide this preliminary submission on issues other than the efficiency of its operations. Once the consultants have submitted their report a final submission will be made by Metro to GPOC incorporating the results of that study, together with the information required to complete table 5.4 (which had not been obtained by the date of this preliminary submission).

Sections 2 to 4 of this submission provide general background information about Metro, its regulatory environment, its operations and its financial performance.

Section 5 focuses on Metro fares policies, whilst section 6 outlines briefly the matters that will be addressed by the consultants' study into the efficiency of service delivery. Section 7 identifies a range of additional costs faced by Metro beyond normal service provision that need to be taken into account when considering the total cost of service provision.

Section 8 focuses on the effectiveness of Metro's operations, taking into account the shareholder expectations.

Section 9 looks at the effectiveness of purchasing arrangements in terms of encouraging the provider (Metro) to deliver to the purchaser (Government) what they really want. Section 9 also looks at the arrangements for adjusting the CSA Payment in light of service changes.

Section 10 focuses on the Metro Index and its adequacy in reflecting Metro's costs.

Section 11 attempts to summarise the main conclusions that can be drawn from the material presented in this preliminary submission.

Once the consultants report has been received sections 6 and 11 will be revised and a final submission made to GPOC.

Metro stands ready and available to provide the Commission with any additional information, to the extent that it is reasonably able to do.



## 2 METRO'S REGULATORY ENVIRONMENT AND CONTRACTUAL ARRANGEMENTS

### 2.1 The Regulatory Framework Within Which Metro Operates

There is a significant history associated with the regulatory framework governing Metro and other Tasmanian bus operators. Essentially this framework has evolved from one where Metro and private bus operators were regulated in totally different ways to one where the framework of transport regulation is now the same. The only differences that remain are:

- the pricing policies applying to each industry sector;
- the mechanisms by which fares changes are reviewed and approved;
- the structure of the contracts under which each operates;
- the mechanisms for providing funding support; and
- the mechanisms used to adjust government payments through time.

Metro sees this review as being one more step on the process of achieving increased consistency between all public transport operators around Tasmania.

Metro has evolved out of the Metropolitan Transport Trust (MTT), which itself was formed in 1954 from the transfer of the public transport services operated by the Hobart and Launceston City Councils. In 1959 the MTT extended its operations to include urban bus services within the Burnie municipality.

The MTT was governed by the *Metropolitan Transport Act 1954*, and was exempted from the public vehicle licensing provisions of the *Traffic Act 1925*. All other operators of regular passenger transport services were required to obtain a public vehicle “coach” licence in order to operate. The MTT’s operating areas were specified in their legislation.

The public vehicle licensing system was established to try and avoid “wasteful competition” between transport operators. This principle of avoiding “wasteful competition” was extended to the operations of the MTT by providing it with powers under its own Act to:

- veto the granting or renewal of any Coach licence for a route service operating wholly within the MTT service areas; and
- require conditions to be imposed on new route services entering their areas, preventing passengers being picked up and set down wholly within the MTT operating areas.

A number of private operators retained coach licences permitting operation within Metro areas from prior to the establishment of the MTT. In other situations licences were provided under the public vehicle licensing system due to the MTT not opposing the issue of the licence or not requiring conditions to be imposed. In a few cases, licensing decisions of the Commission to refuse a public vehicle licence within MTT operating areas were overturned on appeal to the Public Vehicle Licensing Appeals Tribunal.

Contracts for school bus operators were originally issued and administered by the Department of Education. Public vehicle licences for school contract buses were “as of right” to any operator issued with a school bus contract. The administration of school bus contracts was transferred to the Transport Commission from the start of the 1990 school year. School contract services are free to the user and there is a degree of overlap between such services and fare paying route services that are funded through a combination of passenger fares and payments from Government in the form of fare top-ups.

In changes to the administration of government businesses in the early 1990’s Metro became established as a Government Business Enterprise (GBE). In 1995 changes to the *Government Business Enterprises Act* and consequential changes to other legislation removed Metro’s right to have any control over public vehicle licences.

In 1997, the *Metropolitan Transport Act* was repealed and replaced by the *Metro Tasmania Act*. This Act established Metro as a State Owned Company and also removed its exemption from the *Traffic Act*. Metro was issued with appropriate public vehicle licences to enable it to continue to do what it had always done. Metro also became subject to the need to apply for public vehicle licences to undertake any new services.

Rather than have Metro funded under the same “top-up” funding arrangement as other route service operators, a contract based “purchaser-provider” model was introduced in 1997. On 31 October 1997 the Government and Metro entered into a Community Service Activity Agreement in which the services the Government wanted were specified together with the general standards to be adopted, the fares to be charged, and the definitions of passengers eligible for concessional fares.

Although modifications have been made to the form and detail of the CSA Agreement this basic approach has been retained, with the current Agreement expiring on 30 June 2004.

Also in 1997 Metro was declared a “monopoly service provider” for the purposes of the *Government Prices Oversight Act*. As such Metro became subject to regular review every 3 years by the Government Prices Oversight Commission with respect to its pricing policies.

Around the same time the Government also commenced a process of moving to a contract based purchaser-provider model for all other “core” regular passenger transport services, including school contract buses, student-only fare paying services and general route services provided by the private sector.

This change was achieved by introducing the *Passenger Transport Act 1997* and abolishing the public vehicle licensing provisions of the *Traffic Act*.

A transitional process is currently underway in which routes authorized under the public vehicle licensing system are being classified as either “core” or “non-core”, and then contracts are being issued for the “core” services. Once all these interim contracts are issued a process will then begin to rationalize the various core service contracts so that the Government is more clearly in the position of defining the services that it will provide funding support for. The contracts will also provide the mechanisms for defining entitlements to Government funding support.

The basic framework for contracting in services that is being adopted by the Department of Infrastructure Energy and Resources (“the Department”) is that in

“urban areas” an area based contract will be issued defining the urban area within which the contracted operator is responsible for providing an integrated set of core services. Special rules will apply within this urban area enabling other operators to enter the area from outside to pick-up or set down passengers, but preventing them from picking up **and** setting down the same passengers within the urban area (other than under a sub-contracting arrangement with the prime area contractor). Within the urban area “Metro fares” will apply for all travel. This is essentially the system set up by the Department for the Devonport-Latrobe area where MerseyLink is the contracted operator.

Metro has a single “area contract” for Hobart, Burnie and Launceston but this differs from the MerseyLink contract in that there has been no clearly defined urban area within which Metro is the sole operator. There remain a number of other operators that pick-up and set down passengers within the area covered by Metro’s contract, and these operators charge different fares to those used by Metro.

Outside “urban areas” the Department is introducing a route based contract system that specifies the route, the approved fares, timetables and any special conditions that apply (such as for students only). The approved non-urban routes can (and most do) extend into urban areas. In line with historical public vehicle licence conditions, controls will generally apply preventing operators from picking up **and** setting down the same passengers within the “Metro area”.

A process has been set out in legislation for rationalizing the route service contracts in “non-urban” areas.

It is not clear what process is envisaged by the Department for converting Metro’s CSA Agreement into area contracts for Hobart, Launceston and Burnie similar to that developed for Devonport/Latrobe, and applying the same policies regarding controls over other operators that currently apply in Devonport/Latrobe.

Under the *Passenger Transport Act* all providers of public passenger services must be accredited to ensure basic public safety. The system of Operator Accreditation is currently being phased in by the Department, with the same sets of rules applying to all operators.

We now have a situation where both Metro and private bus operators operate under the same system of transport regulation. In addition, both Metro and private bus operators also now operate under a purchaser-provider contract model for the provision of core services.

However, the policy framework adopted for structuring the contracts, setting fares and determining payments for services still differs significantly between Metro and the private bus industry. There are also differences between school bus contracts, student route service contracts and general route service contracts.

The terms of reference for the Review require GPOC to draw conclusions from comparisons between the pricing policies of Metro and other Tasmanian operators. To be able to effectively do this the Commission needs an understanding of the overall fares and funding policy frameworks that have evolved for both Metro and the private bus industry. Consideration of fares policies cannot be divorced from consideration of Government funding policies given the fact that these constitute the primary source of revenues for the bus industry as a whole.

Whilst there is a long-term objective to have a consistent policy framework for the provision and funding of all core regular passenger transport services it is recognized that such a process will take some time to fully evolve.

## 2.2 Statutory Position

The Metropolitan Transport Trust was corporatised on 2 February 1998. The new company, Metro Tasmania Pty Ltd, is a company limited by shares and is incorporated under *Corporations Law* to perform functions relating to the operation of a public bus transport system.

Authority for actions of the company is contained in its *Constitution*. It is also subject to the *Metro Tasmania Act 1997* (passed in December 1997), which requires that Metro:

- provide road passenger transport services in Tasmania in a manner consistent with sound commercial practice; and
- perform on behalf of the State its Community Service Obligations in an efficient and effective manner as specified in the Community Service Agreement.

Other specific legislation associated with establishment of Metro is the *Metro Tasmania (Transitional and Consequential Provisions) Act 1997*.

The Minister for Infrastructure and the responsible agency, the Department, administer these two Acts.

The corporatisation of Metro under *Corporations Law* enables the company to operate as a fundamentally commercial entity, focusing on service delivery, with regulatory and transport policy controls reverting to the Department.

Metro now competes on an equal footing with privately owned passenger transport operators and pays all appropriate taxes, rates, and duties, although it is not funded to provide a return on equity as a private company would be.

## 2.3 Metro's CSA Agreement

Metro's route services are now specified under the framework of purchaser-provider service contracts.

Metro has two such contracts:

- A route service contract with the Department for the provision of a regular passenger transport service between Bothwell and Hobart; and
- A Community Service Agreement with the Crown covering all other route service operations.

Metro is also able to undertake charter work or other regular route services under the same regulatory framework as other bus operators. Metro could also purchase the service contracts of other operators and continue to operate them as separate

contracts, or to seek to have them incorporated into the CSA Agreement through a suitable variation.

The review terms of reference appear to limit GPOC's attention to Metro's provision of regular passenger transport services provided under its CSA Agreement, and hence exclude charter operations and the Bothwell contract.

Metro's current CSA Agreement is for a period of 3 years (from 1 July 2001) and thus any replacement contract could reflect consideration of the Commission's recommendations arising out of this review.

The CSA Agreement requires Metro to provide a set of services specified in Schedule 1 of the Agreement, to a "high standard of proficiency". The Agreement breaks down the services that are to be provided into three service areas, Hobart, Launceston and Burnie<sup>2</sup>. The service areas themselves are not specifically defined in the Agreement other than through specification of the service routes and timetables.

The standard of service provision, including vehicle standards, is specified in general terms in Schedules 2 and 4, but without reference to specific quantifiable standards (such as average fleet age, or maximum vehicle ages). Schedule 2 also clarifies Metro's responsibilities with regard to such facilities as depots, interchanges and bus stops.

The payments provided to Metro in return for these services are separately identified for Burnie, Hobart and Launceston. The Agreement specifies that payments will be adjusted quarterly for movements in the Metro Index, as well as for other reasons including:

- changes in the services;
- changes in Government policies; and
- decisions by Government not to increase fares in line with the Metro Index (due to the impact of such decisions on Metro's revenue streams).

The adjustments to the CSA Payments for these additional reasons are not determined by any set formulae, but rather are "as agreed by the parties".

The intent of the Agreement was that the real value of Metro's revenues would be adjusted in line with movements in the Metro Index (taking into account the impacts of service and policy changes), whilst declines in revenue receipts due to declining patronage or shifts in "other revenues" had to be overcome by Metro increasing the efficiency of its operations. This in effect the same basic policy applying to private sector fare-paying route services where the real value of fares (and fare top-ups) is maintained by indexation, whilst the operators gain the benefits or accept the losses associated with changes in patronage levels.

In relation to service variations a two-tier approach has been adopted. Minor Changes to the approved timetables are the responsibility of Metro provided that the overall "in-service kilometres" delivered in the 3 service areas is maintained within reasonably tight limits of levels specified in Schedule 1 of the Agreement. Major Changes (changes which are not Minor Changes) can be initiated by either Metro or

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<sup>2</sup> Schedule 1 of the CSA Agreement is effectively Metro's timetable plus a listing of "specials" provided by Metro on a regular basis. These specials include services for the Launceston and Hobart shows, international cricket matches, etc.

the Department. However, the Department must first approve any Major Change before it can be implemented. The adjustment to the CSA Payment for any Major Change is “as agreed between the parties”, there are no adjustments to the CSA Payment for Minor Changes.

The Agreement specifies that Metro retains fare-box revenues. However, apart from retained fares, there are no other incentive mechanisms built into the Agreement to achieve specified outcomes.

The maximum fares that Metro may charge are specified in Schedule 3 together with the classifications that are to be adopted for discount fares for students, children and concession travelers. Changes to any Metro fares can only be implemented via an amendment to Schedule 3 of the Agreement <sup>3</sup>.

There are also requirements set out for Metro to maintain records of certain information, and to report regularly to the Department on a range of matters. In addition, Metro provides Treasury with a range of information every 6 months as part of the reporting requirements of State Owned Corporations.

Finally, the Agreement requires that Metro cannot introduce a new ticketing system unless the Department has been afforded the opportunity to incorporate its requirements into the tender specification, and pay for any additional costs that result.

The Agreement does not contain any clear statement about additional requirements of Metro such as Metro being responsible for operational planning and ensuring that services are adjusted regularly to meet the changing needs of the communities served. However, clause 8.4 permits Metro to undertake this role without seeking the prior approval of the Department, if it does so within certain constraints.

## **2.4 Current Government Policy Framework – Fares, Funding And Contracting Of Services**

Metro provides services in accordance with its CSA Agreement, at fares specified in the Agreement. Overall, Metro receives about 70% of its revenues from the CSA Payment and about 25% from passenger fares. The balance of Metro’s revenues comes from other sources such as advertising, charter and investment income.

By contrast school bus contractors receive 100% of their revenue from Government contract payments. Private sector route operators would have a different mix of revenue sources, with the proportions likely to vary significantly according to the type of service and the potential for the operator to generate other income. Student-only routes services would obtain most of their funding from Government fare-top-ups, whilst general route services would receive most of their revenues from passenger fares.

The greater the proportion of revenue that can be derived from Government funding the lower the proportion that needs to be raised from passenger fares, and hence the lower the fare levels can be. Any comparison in fares policies between Metro and

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<sup>3</sup> Even changes to adult fares in line with the *Government Prices Oversight (Metro Bus Fares) Order* can only be implemented through a change to the CSA Agreement.



other bus operators needs to take into account the differences that exist in non-passenger revenue streams.

The purpose of this section is to outline the major elements of the existing policy framework applying to public transport fares and funding arrangements as background for specifically looking at Metro fares policies in section 5 of the submission.

The first distinction that is drawn is between fares applying in urban areas as compared to those in non-urban areas. The definition of “urban areas” is basically the areas served by Metro plus the Devonport-Latrobe area now serviced by MerseyLink. This definition requires review.

Within urban areas “Metro fares” currently apply for services provided by Metro and MerseyLink. Students traveling on fare paying route services operating wholly within the urban area pay a 70 cent fare<sup>4</sup>. The “non-urban” student fare for private operators was set at 50% of the then Metro ten-ride fare (60 cents) in 1991 when the 30 cent fare was first introduced. The urban area private sector fare was set equal to the Metro fare. In 1995 the Metro ten-ride fare increased to 70 cents and the private sector urban fare was adjusted with it. The non-urban student fare stayed the same. In 1996 when the ten ride Metro fare was adjusted to 96 cents, the private sector student fares remained at 30 cents (non-urban) and 70 cents (urban), and they have stayed there since.

The Metro student fare of 96 cents for ten-ride tickets or \$1.20 for single ride tickets has remained the same for the last two Metro fare increases (July 2000 and September 2002).

In some “urban areas” (ie areas where Metro is providing services, but not a full service) students traveling on private route services pay 30 cents. An example of this is Ulverstone.

General route services are not normally permitted to provide for travel within “urban areas”, as this is the domain of Metro or MerseyLink. However, there are a few examples where Metro and private bus operators provide services over essentially the same route; such as Redline services between Burnie and Ulverstone, or Hobart Coaches services between Kingston and Hobart. There is no consistency of fares between Metro and the private operators in such circumstances, with the private operator fares generally being higher.

Ideally there should be a more functional definition of urban areas (or “metropolitan areas” as specified in the *Passenger Transport Act*) and a consistent fares policy applied to such areas. Services provided by Metro in urban areas would then need to comply with these policies, whilst services provided by Metro in non-urban areas (such as Bothwell) would comply with the non-urban fare policy.

In the non-urban areas (including services commencing outside urban areas but traveling to the urban centre) the private sector fares are approved by the Transport Commission, and vary considerably in terms of the underlying fare formula<sup>5</sup>. Fares for students are set at 30 cents, and fares for other passenger categories are set as

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<sup>4</sup> Students eligible for a free travel pass pay no fare on any bus for travel to or from school.

<sup>5</sup> Most services charge fares based on a flagfall plus a per kilometre rate, with fares increasing directly with distance. There are substantial differences in the costs and passenger loadings for these services making a single fare formula inappropriate, although there may be a case for a set of standard fare formulae.

a proportion of the adult fare (concession and child passengers are 50% of the approved adult fare). The operator has the option of providing discounts for regular travelers below these maximum levels. Ten ride tickets tend to be 8 times the single fare. The definition of concession passenger varies as illustrated in Attachment B.

In areas not served by Metro or Merseylink, or only partly served by Metro or Merseylink, a range of student contract services operate which are free to the user. The Department has a set of guidelines that it uses to determine if a free school contract service can be provided. The payment rates for school contract buses varies significantly from contract to contract according to the original contract rate for the service and the subsequent indexation of payments.

For Metro the provision of Government funding support is provided by the CSA payment, whose derivation is outlined in section 4.2. A similar structure exists for MerseyLink. For other private sector operators, Government funding is provided either via a contract payment to cover the full cost of the service (in the case of school contract buses) or through fare top-ups. Fare top-ups are provided only for primary and secondary students traveling to and from school (the top-up being the difference between the fare paid by the student and 50% or 75% of the approved adult fare – depending on the age of the student), and for concession passengers (the top-up being 35% of the approved adult fare).

These existing arrangements have established an effective policy framework that encourages the provision of private sector student-only route services funded largely through top-ups. It is understood that the Department is working towards the development of a more comprehensive policy framework for the setting of fares and the provision of funding support for public transport that will be consistent across all operators, although different between urban and non-urban services. It is recognized that this is an important, but complex and difficult task.

## 2.5 Fares Controls

Metro faces two mechanisms for controlling fares.

First of all the Metro Board is able to determine adult fares provided that the fares always comply with the rules defined by the *Government Prices Oversight (Metro Bus Fares) Order 2000*.

This order defines three things

- A starting set of adult fares
- A set of “ceiling fares”
- A basket of adult tickets, being a weighted combination of Metro’s existing adult tickets, with a resultant weighted average fare.

Under the Order Metro is able to determine adult fares subject to:

- Any individual fare being less than the “ceiling fare” indexed by the Metro Index; and
- The weighted average fare of the basket of adult tickets being less than the initial weighted average fare indexed by the Metro Index.



Secondly all fares, including Adult fares, can only be changed through a “deed of variation” to the CSA Agreement, which requires the Minister’s approval and signature.

The fares for private sector operators are defined by the Transport Commission. The initial fares are set at a level considered appropriate at the time to make the service viable (normally by reviewing the reasonableness of proposals by the operator). Once fares are set they are generally just indexed (by the School Bus Index) on a regular basis.

## **2.6 GPOC Role – Overseeing Monopoly Prices**

As indicated in section 2.1, GPOC has a legislated role to review the pricing policies of Metro on a periodic basis, but has no role to play regarding the pricing of other bus operators providing services to Government under “monopoly” contracts issued by Government.

Metro believes that this role is inappropriate and consideration should be given to reviewing this role.

The first reason is that Metro is not a “monopoly service provider” in the true meaning of the words. A monopoly supplier in economic terms is one that obtains their revenues from customers and can exercise its dominant market position in supplying an essential service to exploit those customers to make excessive profits and/or operate in an inefficient manner.

Metro’s view is that the fares policy employed by Metro and other bus operators is now effectively controlled through the purchaser-provider service contract system operated by the Department. Metro is unable to alter its prices so as to be able to exercise monopoly power and exploit its customers. In addition, Metro only obtains 25% of its revenues from passenger fares.

Metro recognizes the need to have a fares policy that is designed to ensure that the social policy objectives of Government are met. It is the role of the Department to develop that fares policy and ensure its implementation through the contract system. However, this role covers the fares structure adopted by all providers of core public transport services including Metro.

Metro also recognizes the importance of other elements of the overall level of service provided to public transport users, other than fares. These elements also need to be defined and the contract system to deliver the services must have inbuilt mechanisms or incentive structures designed to deliver the desired social policy outcomes of Government. In some cases retained passenger fares may not provide the appropriate incentive to operators to provide the level of service required.

The structure of the contract is thus a key factor in ensuring the effectiveness of service delivery.

Finally, it is recognized that the Government spends considerable sums of public money on purchasing public transport services for the community. Not only does the Government need to ensure that the right services are being purchased, but the Government needs to be satisfied that the services are being delivered as efficiently as possible.

Whilst Metro accepts the scrutiny of the efficiency of its operations as being in the overall public interest, it is difficult to understand why this scrutiny is not extended to the full range of contracts administered by the Department. After all, each of the contracts appears to provide the operator with a degree of monopoly rights to the provision of specific services, the Department allocates these contracts in a generally non-competitive way and Government funding is a substantial component of total revenue.

This is not to argue that the Government should introduce competitive tendering of bus contracts. Rather it indicates that it would appear to be reasonable for the contracting organization to have benchmarks of the efficient cost of service provision that should be used as targets, even if they have to be varied in individual cases to allow for special circumstances.

Having a review process that is independent of the two parties to the service contracts for core public transport services has merit, and so perhaps a revised role for GPOC could be to review the structure of contracts for the bus industry in delivering Government objectives, and in developing a system of efficient service benchmarks. This would leave the Department with the role of defining the overall policy framework, and the fares policy in particular; as well as administering the contract system itself.

### **3 OVERVIEW OF METRO OPERATIONS AND OPERATING ENVIRONMENT**

#### **3.1 Metro Services**

Metro provides a broad range of route services within Hobart, Launceston and Burnie. Some are designed specifically for the carriage of students, but most are designed to meet the needs of the full cross-section of the community.

##### **3.1.1 Hobart**

There are approximately 50 routes in Hobart.

The majority of services radiate from the Hobart, Rosny Park or Glenorchy Bus Stations at 30-minute intervals on weekdays during daylight hours.

Several express routes are provided during the peak periods.

A high frequency 'Busy Bee' service operates in the Sandy Bay area. This service is provided every day of the year during the day, and every evening except Sundays.

Local shopping services operate in the inter peak period in 10 suburbs.

On 3 routes 'Courtesy Zones' have been created allowing greater flexibility in stopping points for alighting passengers.

Although fewer routes operate during the evening and on weekends, coverage of most areas is maintained by the combination of bus routes.

Evening services operate on 14 routes on Monday to Thursday until approximately 10:30pm.

On Friday, there are additional evening services operating until 12:20 am on these 14 routes as well as evening services on 4 additional routes.

Saturday daytime services operate approximately hourly on 20 routes. Service levels on Saturday evening are similar to Friday.

Sunday services operate on 90 to 120 minute frequencies on 17 routes.

Public holiday services are provided on 60 to 120 minute frequency on 18 routes

Approximately 1330 separate services are provided on weekdays (1400 on Fridays), 500 on Saturdays and 240 on Sundays and 420 on Public Holidays.

Approximately 120 School only services are provided on weekdays to 50 schools and colleges, students from several schools often share one service.

Consideration is currently being given to the extension of Metro services to also include Kingston and Blackmans Bay.

### **3.1.2 Launceston**

Fifteen routes operate on weekdays during daylight hours, and on Friday evening 17 trips operate on 2 routes until 11:00pm.

Regular route services operate at 30 to 60 minute frequency, although some only operate during peak periods. In addition, there is a “Shopper Service” which operates in the inter-peak period. Express peak services are provided on two routes. Nine routes operate on Saturday during the day, and Saturday evening services are similar to Friday.

On Sundays and Public holidays there are services on 7 routes.

Approximately 468 trips are provided on weekdays, (484 on Friday), 110 on Saturdays and 41 on Sundays and Public Holidays.

Approximately 107 School only services are provided on weekdays to 31 schools and colleges.

### **3.1.3 Burnie**

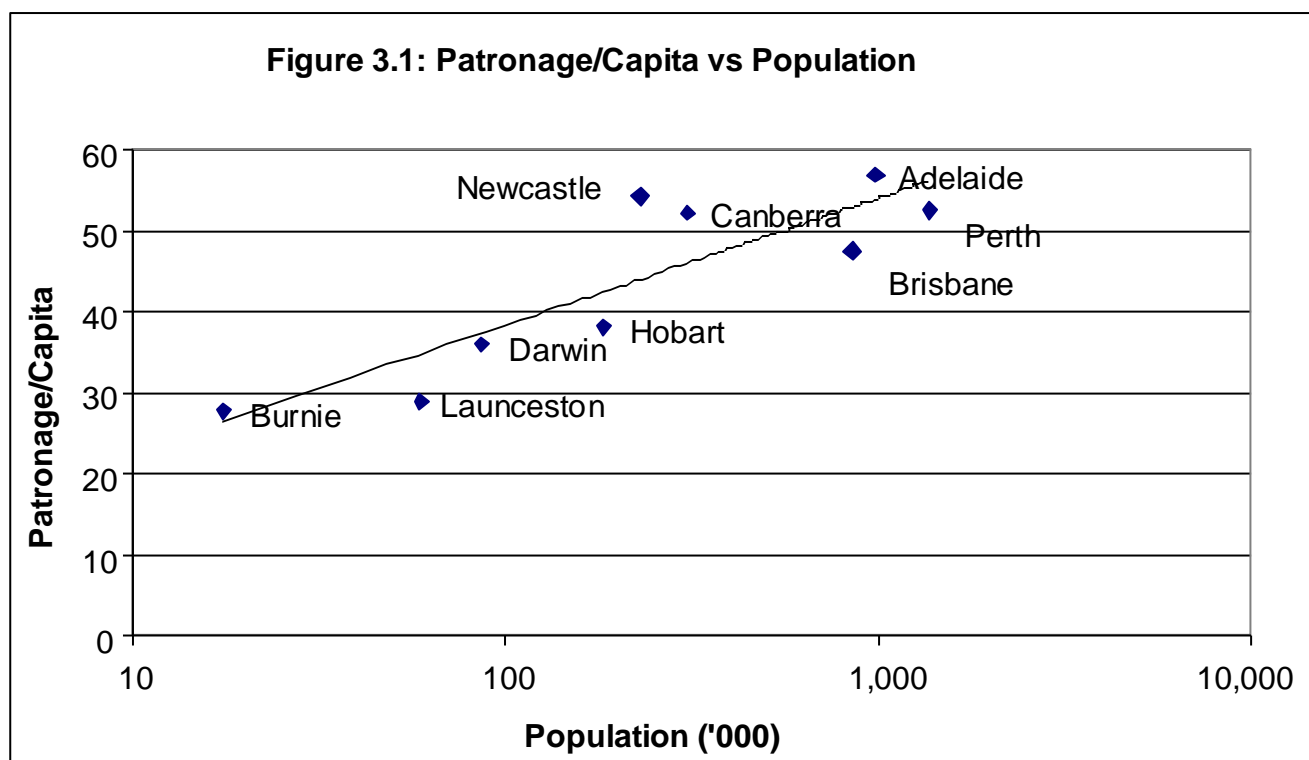
Services only operate on weekdays during daylight hours. There are 180 services operating on 8 routes, and 34 school only trips servicing 10 schools.

## **3.2 Special Aspects Of Metro’s Operating Environment**

When making comparisons between different operators in relation to costs and revenue potential there is a need to take into account a range of special factors relating to Metro’s operations. These factors make the areas served by Metro more costly to service and also result in a lower revenue generating potential per operational kilometre. These factors need to be kept in mind when comparisons are made and include:

- The terrain of areas served by Metro is typically hillier resulting in higher operating costs per kilometre for fuel, brakes, tyres, transmissions and other related costs.
- The terrain in relation to both the hills and rivers has led to a relatively sprawling urban environment with poor road linkages connecting the various legs of urban development. This increases the complexity and cost of serving a given level of population both increasing costs and reducing the revenue potential for a given sized urban area.
- Metro’s service areas are relatively low density, and contain many sections where routes are operated through corridors of bushland, or areas where only one side of the road is used for urban development. Good examples are routes to South Arm, Wynyard and Ulverstone; but there are many other examples of such “dead running” within Metro’s route structure. This reduces the potential revenue per kilometre that is available compared to a more densely populated urban area.

- There are three operational centers for Metro to service, Burnie, Launceston and Hobart. Whilst there are some corporate overheads shared between the 3 centres there are also a large number of diseconomies associated with such an operational structure such as the need for 3 separate fleets, 3 depots, 3 supervisory structures, significant traveling for key staff, etc. Metro was able to realize significant savings when it was able to consolidate operations in one depot within Hobart (where previously there were 3). It is not possible to consolidate Burnie, Launceston and Hobart.
- Each of the urban areas served by Metro is relatively small by Australian standards. There is clear evidence that links the size of the urban areas with the potential for public transport use (refer figure 3.1 – taken from the 2000 BAH study for Metro). This limits the revenue potential of Metro.
- Tasmania has the highest level of “welfare beneficiaries” and the highest population age of any Australian State. This results in a greater proportion of Metro’s clientele being eligible for concessional travel, which limits the average fare level per passenger. Figure 3.3 helps illustrate the growing number of concessional passengers, a factor that is magnified by the generous classification of eligibility for concessional travel (see section 5.4.5).



The Tasmanian Government in its February 1997 submission to the Commonwealth Grants Commission provided an analysis of the unique difficulties faced by an operator of public transport in Hobart.

This analysis recognised that the long narrow space available for development between the mountains and the river imposed a disability, “the geographical/urban form of greater Hobart presents a substantial cost disadvantage in terms of the additional transit system (Metro) capacity required to provide a standard level of service.”

All capital cities in Australia were modelled to assess “the proportional increase in transit system capacity (in terms of bus equivalents) due purely to the difference between the actual (2-dimensional) urban form of a city, and a rectangular form without geographical constraints (such as rivers for example).”

The analysis excluded the more remote areas of each city, in the case of Hobart “Seven Mile Beach and south of Lauderdale to Opossum Bay, ... these two areas do not have population densities which would be considered sufficient to warrant inclusion ...”, “the results now present a conservative estimate of the relative impact of urban form for the Hobart situation vis a vis the other capital cities.”

Table 3.1 presents the results of the Grants Commission analysis and shows Hobart as having by far the greatest urban form disability factor.

It should be noted that in the Base Case “...cities are assumed to be have flat terrain. Slopes increase distance, fuel and brake use, and to the extent that they are ignored the analysis favours the flatter cities at the expense of hilly cities such as Hobart.” These difficulties impact on Metro costs and on the attractiveness of bus services.

**Table 3.1: Summary of Urban Form Impact**

<b>City</b>	<b>Base Case (bus equivalents)</b>	<b>Urban Form (bus equivalents)</b>	<b>Impact Adjust Index</b>	<b>Category Factor</b>
<b>Sydney</b>	2 203	2 274	1.023223	0.93215
<b>Melbourne</b>	1 140	1 431	1.25526	1.13356
<b>Brisbane</b>	470	478	1.01702	0.91842
<b>Perth</b>	182	206	1.13187	1.10225
<b>Adelaide</b>	204	249	1.22059	1.10225
<b>Hobart</b>	20	31	1.55000	1.39973
<b>Canberra</b>	66	74	1.12121	1.01251
<b>Darwin</b>	9	12	1.33333	1.20407
<b>Standard</b>			1.10736	1.00000

### 3.3 Technological Environment

Metro, like all other urban bus operators, is facing significant technological change over the coming years. Planning for and accommodating such change is easier for operations that are larger in scale, and have the support of Government Departments with the resources and possibly incentive programs to facilitate such changes. Tasmania as a small state does not tend to have the same level of Government support in these areas as some of the larger States. This is not a criticism of the State Government, but rather an acknowledgement of the reality of the Tasmanian situation.

Examples of such technology changes include:

- accessible buses and supporting infrastructure;
- smartcard ticketing systems
- Global positioning systems and “real-time” passenger information;
- Bus priority systems such as bus only lanes and signal activation systems;
- Centralized information systems and journey planners;
- The development of transit centers;
- The introduction of alternative fuels such as LNG, CNG or ethanol;
- Ultra Low Sulphur Diesel; and
- Euro 3 Engines.

As an example Metro has embarked upon a bus replacement program designed to give passengers access to new ultra-low-floor buses complying with the *Disability Discrimination Act (DDA)*. The introduction of these buses has capital cost implications as well impacts upon Metro’s planning and operational resources. This initiative is being undertaken by Metro without the assistance of any State programs designed to compensate Metro for the extra costs, to help promote accessible services to the target community or to generally help introduce a policy which has been developed through a process led by the Commonwealth and State Governments.

### 3.4 Metro Assets And Resources

To provide its services, Metro employs 367 full-time equivalent employees and a fleet of 201 buses. The total peak bus requirement is 181 buses. Table 3.2 provides a breakdown of Metro’s fleet requirements by urban centre. Table 3.3 indicates the number of staff employed to operate services in each centre.

**TABLE 3.2 BUS FLEET – 30 JUNE 2002**

<b>Bus Type</b>	<b>Hobart</b>	<b>Launceston</b>	<b>Burnie</b>	<b>Total</b>
Mini buses	3			3
Midi buses	11	9	2	22
Standard rigid buses	101	41	13	155
Articulated buses	21			21
<b>Total</b>	<b>136</b>	<b>50</b>	<b>15</b>	<b>201</b>
Peak Bus Requirement	125	43	13	181

**TABLE 3.3 STAFF NUMBERS (FTEs) – 30 JUNE 2002**

<b>Centre</b>	<b>Drivers</b>	<b>Trades &amp; Non-traffic</b>	<b>Administration</b>	<b>Total</b>
Hobart	220.2	28.0	31.0	279.2
Launceston	59.6	8.0	3.0	70.6
Burnie	14.9	1.5	1.0	17.4
<b>Total</b>	<b>294.7</b>	<b>37.5</b>	<b>35.0</b>	<b>367.2</b>

Metro owns a single facility at each of its centres of operations from which depot, engineering and administration services are provided. Table 3.4 summarises Metro's assets by major asset type, location and written down value.

**TABLE 3.4 ASSET VALUES (\$'000) – 30 JUNE 2002**

<b>Asset Class</b>	<b>Hobart</b>	<b>Launceston</b>	<b>Burnie</b>	<b>Total</b>
Buses	9,893	3,702	1,206	14,801
Electronic Ticketing and Communication Equipment	222	7	23	252
Land and Buildings	6,451	1,737	410	8,598
Auxiliary Vehicles	224	16	11	251
Plant and Equipment	532	36	8	576
Route Infrastructure	240	28	91	359
<b>Total</b>	<b>17,562</b>	<b>5,526</b>	<b>1,749</b>	<b>24,837</b>

Metro is currently in the initial stages of a progressive fleet replacement program designed to ensure that all general route service buses meet the "accessible transport" standards of the DDA within 20 years.

The initial schedule was for the delivery of 3 accessible vehicles in the financial year ending 30 June 2002 and then 10 accessible vehicles each year after that. Some initial delays in the delivery schedule amended these plans slightly. However, as can be seen in Table 3.5, the current expectation is that replacement program schedule will be achieve the target of 50% of the fleet complying with the accessible standards by 30 June 2011, about 15 months ahead of the legislated requirement.

Table 3.5 also indicates that the current average age of the fleet is between 10.4 and 10.5 years, and that this level will gradually increase towards a long-term level around 12 years. If a younger fleet is required under the CSA Agreement then



additional funding will be required to put in place an accelerated fleet replacement program.

**TABLE 3.5 AVERAGE FLEET AGE AND ACCESSIBLE VEHICLES**

<b>Position at 30 June:</b>	<b>Average Fleet Age (years)</b>	<b>% Fleet Accessible</b>
2002	10.4	4
2003	10.5	11
2004	10.8	16
2005	11.0	21
2006	11.2	26
<b>2011</b>	<b>11.7</b>	<b>51</b>

### 3.5 Long Term Patronage Trends

Figure 3.2 illustrates the long-term trend decline in first boardings for Metro over the last 16 years. The trendline fitted to the data indicates that the average decline is 2.6% per annum. Similar estimates of the trend decline have been identified using data over a more extended period, and by the patronage study undertaken for Metro by Booz Allen Hamilton<sup>6</sup>

Figure 3.3 illustrates that whilst Adult patronage has been in steady decline over this period there has been a slower decline in student/child passengers and an actual increase in concession passengers since about 1992/93.

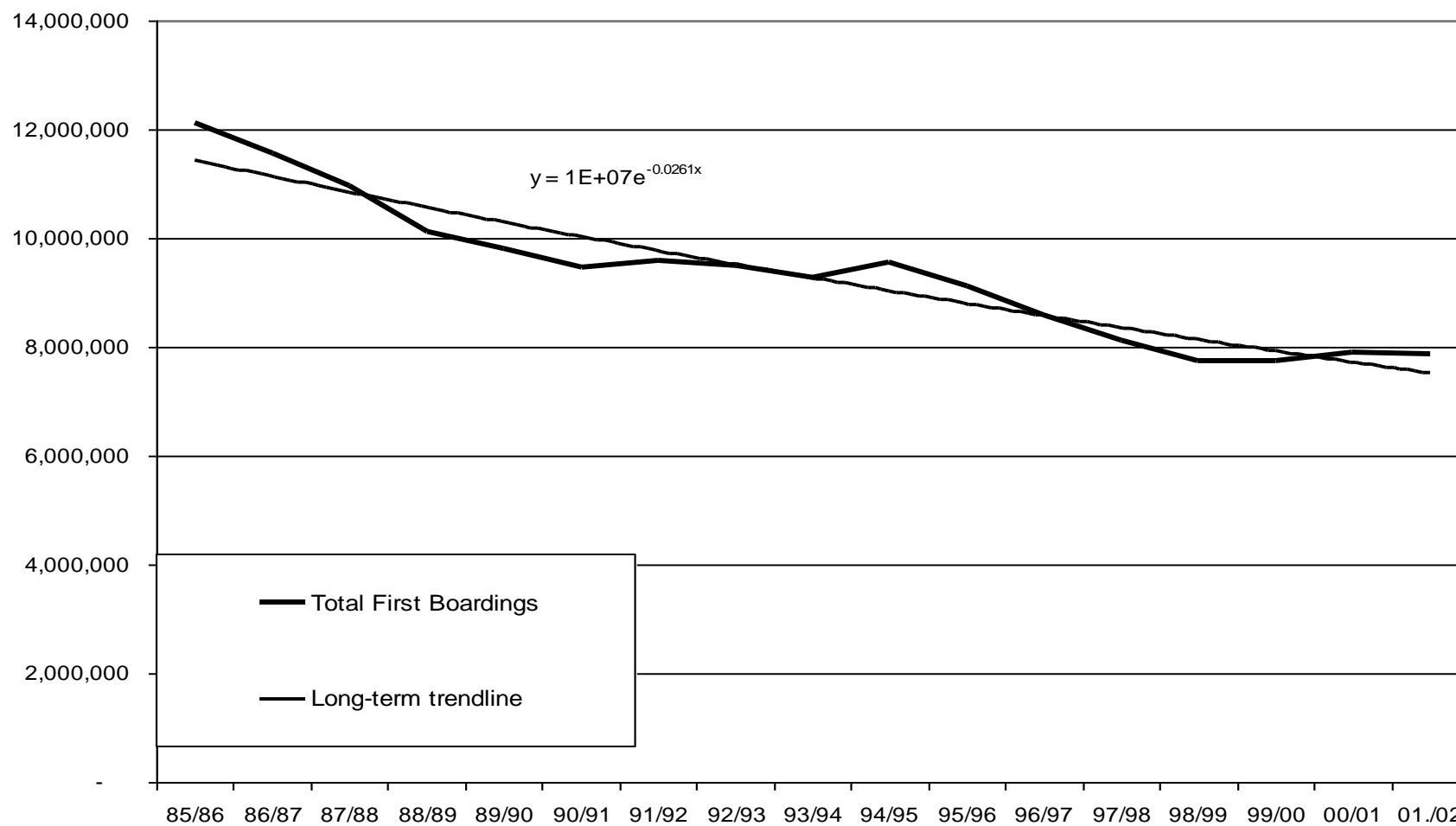
In a recent major study of patronage trends undertaken for Metro by Booz, Allen and Hamilton the consultants determined that in the 15 year period to 1998/99 patronage had declined at the rate of 3.2% pa and they predicted that Metro's patronage up to 2014 was likely to decrease by around 2.5% per annum<sup>7</sup>. Metro believes that a long-term trend decline of around 2 to 2.5% is realistic, although lower levels may be achievable by concerted and coordinated action between Metro and Government.

Underlying current static aggregate population estimates for the next 15 or so years there are expected to be substantial changes in the composition of the Tasmanian population. These changes in the population mix are expected to have significant implications for Metro and even more significant implications for the rest of the Tasmanian bus industry.

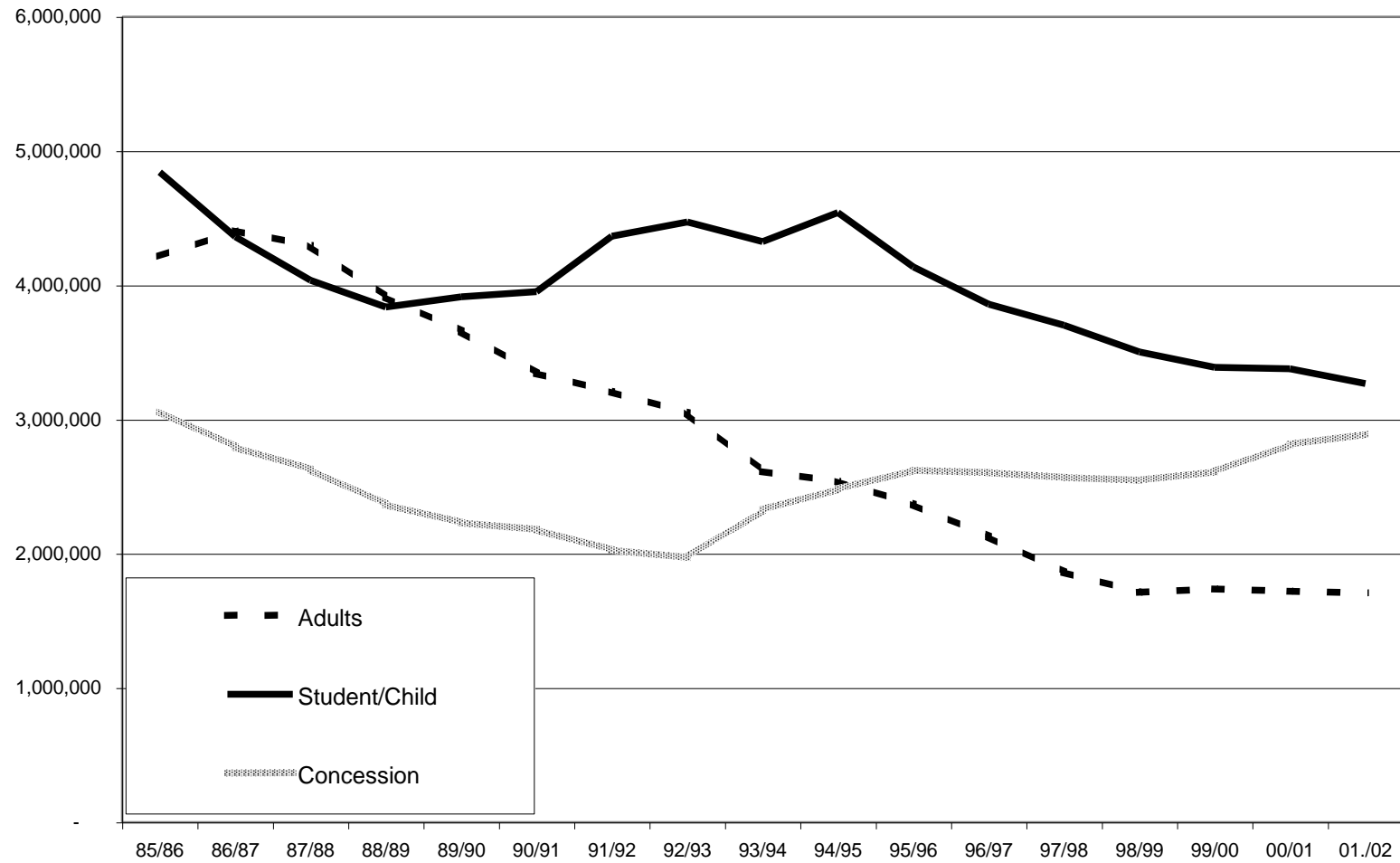
<sup>6</sup> Appraisal of Patronage Trends and Prospects. Report for Metro by Booz Allen and Hamilton, May 2000.

<sup>7</sup> The actual prediction of BAH was for a decline of 3.2% or more based on a pessimistic population forecast of a decline in Tasmania's population of 7%. More optimistic long-term population forecasts, such as those developed by ABS (in their October 2001 report "Population Projections, Tasmania"), show Tasmania's population changing by between +0.1% and -0.3% over the period to 2016. This would change the predicted patronage decline to around 2.5% pa.

**Fig 3.2 LONG-TERM TREND IN FIRST BOARDINGS**



**Fig 3.3 COMPOSITION OF FIRST BOARDINGS TRENDS**



The Australian Bureau of Statistics (ABS) expects that children aged 5-14 years will decrease as a proportion of the overall population from 14% in 1999 to about 12% in 2011. This is significant for Metro because boardings by school-age children currently make up over 40% of total boardings Statewide. The rest of the Tasmanian bus industry is more heavily reliant on students for their customers.

On the other hand, there is a significant opportunity for Metro to improve patronage in the Adult Concession category, which until very recently has grown markedly. The ABS predicts that, for example, the proportion of population aged 65 years and over will increase from just over 13% in 1999 to just under 17% in 2011. An ageing population is more restricted in its choices for means of travel, giving Metro the chance to make it the mode choice for more travelers.

Longer-term population trends reported by the University of Tasmania show that the number of persons in the 0 to 14 year age range could halve by 2051 (currently 100,000) whilst those above 65 could double over the same period (currently 63,000).

The effect of such population shifts on the demand for Metro services, and other bus operators, could be dramatic. The student transport task will decline, which when combined with the historical decline in adult commuter passengers, should reduce peak period travel demand. However, demand in off-peak periods should be expected to increase as the numbers of concession passengers increases.

### **3.6 Recent Patronage Trends**

Figures 3.4 to 3.7 illustrate recent trends in first boardings. The data presented are rolling 12 month totals for the periods ending June 2000 to October 2002. This is designed to remove most seasonal variations, although Good Friday and Easter occurring in a different month for 2001 and 2002 has resulted in the “blip” seen at Mar-02.

#### **3.6.1 Statewide**

Figure 3.4 shows a gradual increase in total statewide first boardings to just under 8 million and then a gradual decline. Boardings at the finish of this period (October 2002) were about 90,000 more than at the start (June 2000).

Both Student / Child and Adult patronage remained fairly constant over the period.

The main reasons for the recent trends are the changes in boardings for Adult Concession and Free Student passengers: Adult Concession patronage increased strongly then stabilised; and Free Student patronage was fairly steady then experienced a marked decline.

Reasons for the increases in Adult Concession patronage include:

- relaxing the time restrictions on the popular daily tickets as recommended in the previous Government Prices Oversight Commission's Investigation of Metro Pricing Policies;
- the introduction of various Metro service initiatives such as Doorstoppers, Shopper Shuttles, Shopper Stoppers;
- the introduction of various customer relations initiatives such as more women drivers and stop specific timetables; and
- an increasing elderly population.

The levelling off of Adult Concession boardings over the second half of this period may be the result of the wearing off of the initial impact of the first three reasons for the increases listed above.

Free Student patronage has fallen largely because the Department has tightened up on the issuing of free passes, and the student population is declining. The latter reason tends to reduce Student / Child patronage but the former reason has the opposite effect, and the steadiness of Student / Child patronage reflects these opposing forces.

In its report for Metro "Appraisal of Patronage Trends and Prospects" (May 2000) consultants Booz, Allen and Hamilton found that Metro's patronage had been declining by over 3% per year since the mid 1980's and predicted that patronage would decrease by at least this recent historical rate up to 2014 with no changes to Metro's overall services. By making some changes to its services as listed above, Metro has been able to turn around this negative trend up to about February 2002. However, without any new measures and a declining student population, the old trend seems to be resurrecting itself, as is shown by the decline in boardings of just under 2% from October 2001 to October 2002.

### **3.6.2 Hobart**

Since Hobart boardings constitute about three quarters of Statewide boardings, the recent trends for Hobart (see Figure 3.5) are the same as for Statewide.

### **3.6.3 Launceston**

Launceston's patronage (Figure 3.6) shows the same increase then decrease trend as for Statewide first boardings but to a much more marked degree. The increase and decrease in boardings both amounted to about 100,000, leaving patronage only 10,000 better at the end of the period than the beginning.

Two influences, in addition to the Statewide ones, assisted Launceston's patronage growth in the first half: the inclusion of Ravenswood in Metro's operating area and a significant increase in the Launceston City Council's parking charges.

The loss of jobs as well as students in the Launceston area has contributed to the large fall in patronage of over 5% from October 2001 to October 2002. Whereas Hobart's patronage for Student / Child, Adult Concession and Adult passengers was steady in the second half of the period, Launceston's patronage for all three of these categories fell.

The changes in Launceston's patronage illustrate how factors outside of Metro's control, such as parking charges and level of economic activity, can significantly affect patronage levels.

### **3.6.4 Burnie**

As opposed to Launceston, Burnie's patronage (Figure 3.7) shows a significant turnaround, largely due to the underlying change in Burnie's level of economic activity.

The decline in Burnie's economy over-rode the positive influences on patronage experienced by Hobart and Launceston in the first half of the period, and even Free Student boardings for Burnie went against the Statewide trend in the second half due to the economic recovery of this region.

## **3.7 Elasticity Of Demand For Public Transport**

Information about the elasticity of demand for public transport services is important to help understand what the likely impacts are going to be financially, operationally and socially when fares policies are changed.

Various factors influence the demand for public transport, including the level of service provided, the fares for services and the level of income of the passenger. Elasticities measure the responsiveness of the demand for public transport services to changes in these factors. The basic elasticity formula is:

$$\text{Factor Elasticity} = \% \text{ change in the demand} / \% \text{ change in the underlying factor}$$

So the price elasticity of demand for public transport is the % change on the demand for public transport for a given % change in the price or fare level.

Information relating to elasticities has been drawn from the following sources:

- Appraisal of Patronage Trends and Prospects (May 2000) by Booz, Allen and Hamilton (BAH);
- A Tale of Seven Cities: Subsidy Reductions in Norwegian Public Transport (2001) by Nils Fearnley and Erik Carlquist (NF and EC); and
- Submission to the Government Prices Oversight Commission (February 2000) by Metro.

Fig 3.4 Statewide First Boardings for the Preceding 12 Months

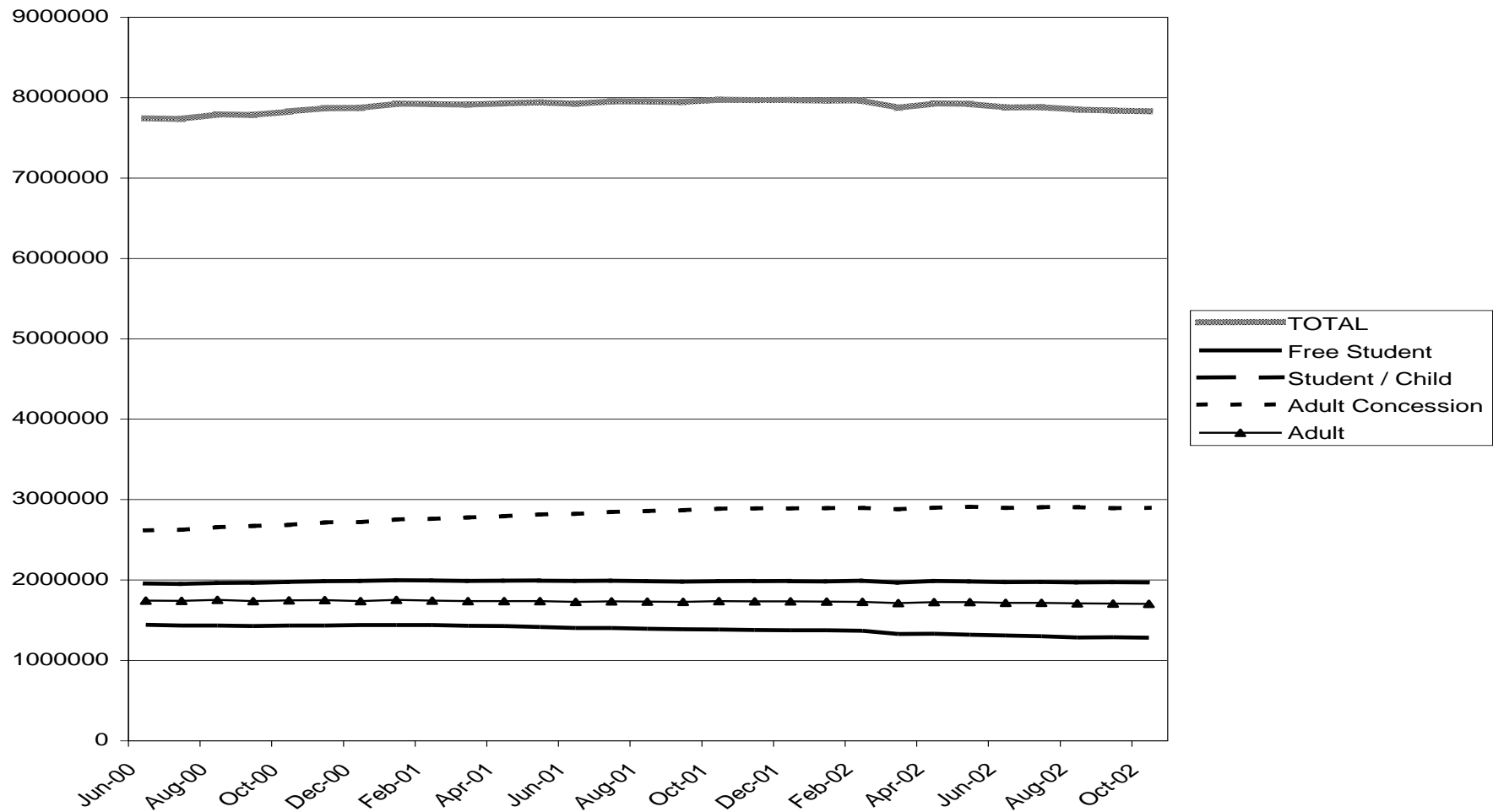


Fig 3.5 Hobart First Boardings for the Preceding 12 Months

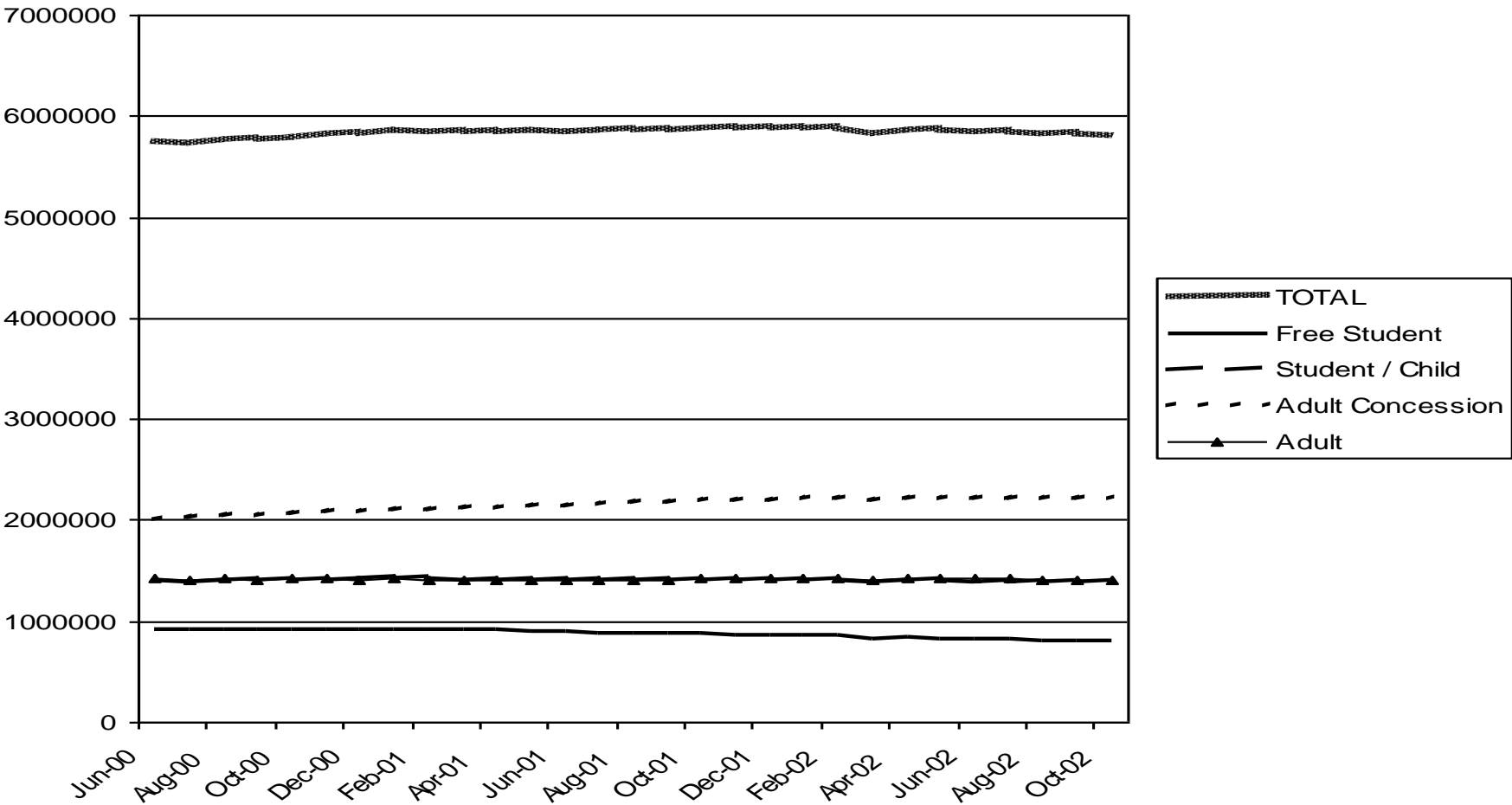




Fig 3.6 Launceston First Boardings for the Preceding 12 Months

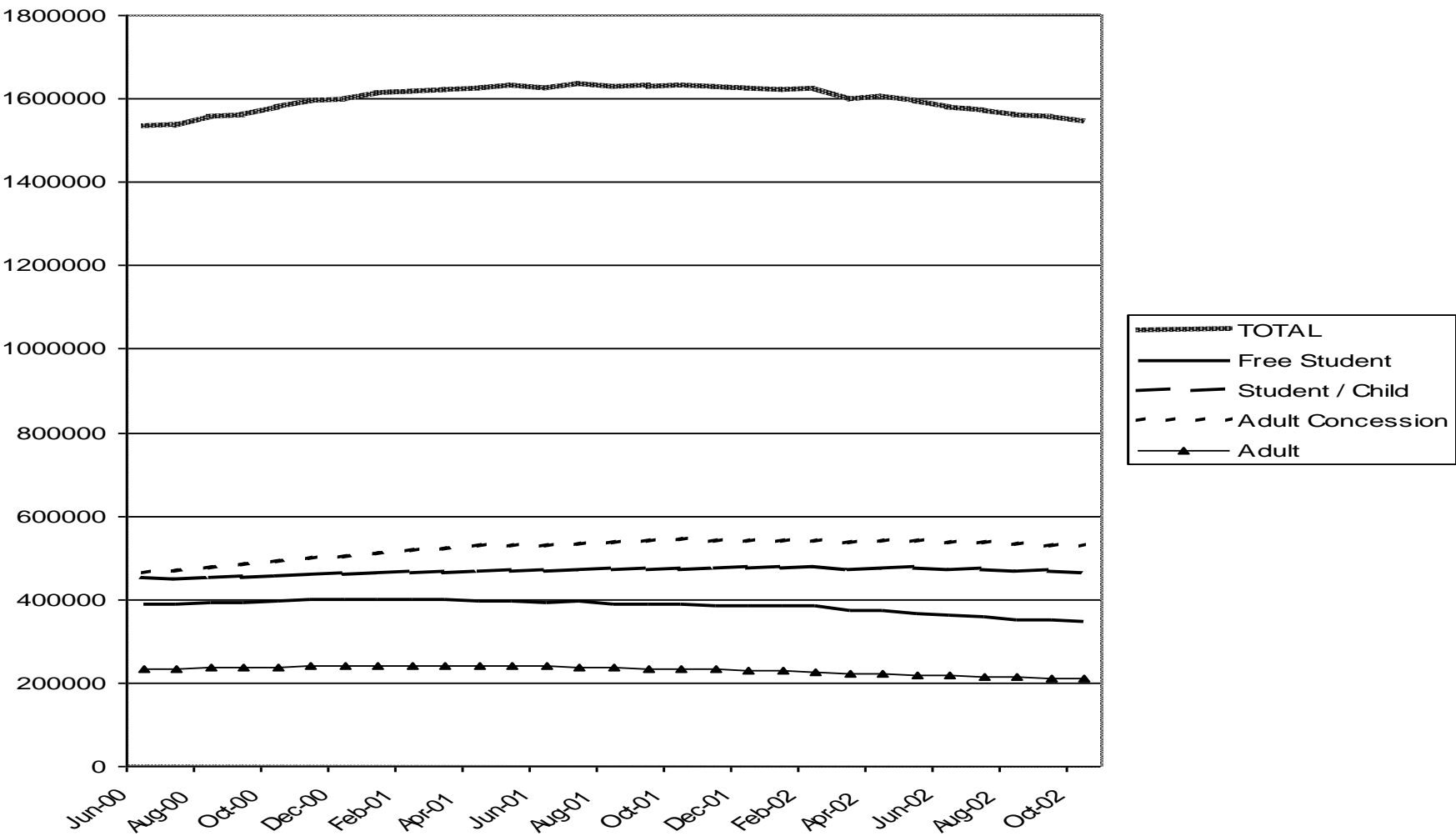
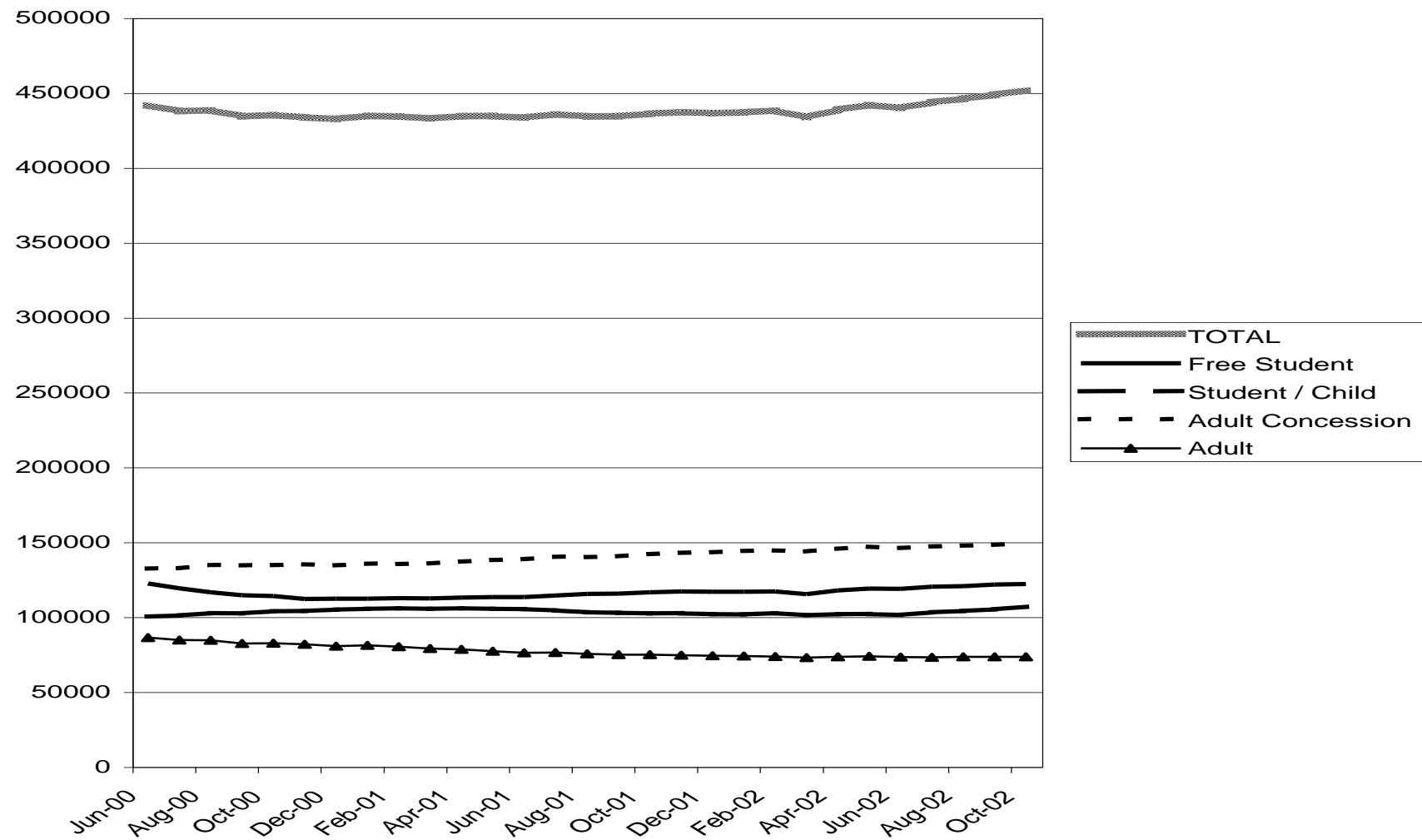


Fig 3.7 Burnie First Boardings for the Preceding 12 Months



### 3.7.1 Price Elasticity

The price of public transport to the passenger, or fare, influences the degree to which people use public transport. As with the vast majority of products, the price elasticity of public transport is negative: if the price goes up, the demand goes down.

Basically the public is not very responsive to fare changes, with available evidence indicating an overall price elasticity of minus 0.4-0.5 in the short term (BAH)<sup>8</sup>. This means a 10% increase in fares would result in a 4-5% decrease in patronage in the short term.

Price elasticity varies amongst the specific fare categories, times of day, over distance and over time:

- Adult Concession passengers are more responsive (more flexible) to price changes, having a price elasticity of minus 0.6-0.75 (BAH and Metro). The responsiveness of Adult and Student / Child passengers would be less than minus 0.4-0.5 so that the overall price elasticity averages out to minus 0.4-0.5.
- Peak period elasticities are around one third lower (less responsive) than average whilst off peak elasticities are up to half again higher (more responsive) (Metro).
- The shorter the public transport trip, the more responsive the passenger is to price changes, that is to say, the higher the elasticity (Metro).
- The medium term (about one year) price elasticity of public transport is about minus 0.6 (BAH and Metro), reflecting the greater responsive available to the public due to more time to change their travel patterns.
- In the long term changes in Metro fares have little effect on the demand for public transport because: Metro's price increases are tied to the Metro Price Index, which moves in a similar fashion to the Consumer Price Index; and price elasticity applies only when the price of all other products, including substitutes (private car), stay the same. Over the long run prices generally go up in much the same way as do Metro's fares, thus ironing out the short term effect of specific fare increases.

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<sup>8</sup> In its 2000 GPOC submission, Metro estimated the price elasticity to be minus 0.3-0.4; whilst in their 2001 paper Fearnley and Carlquist put fare elasticity at minus 0.5.

### **3.7.2 Service Elasticity**

This elasticity refers to how changes in the level of public transport service affects the demand for public transport, with service levels normally measured in terms of bus kilometres or number of services.

BAH estimated a service elasticity of plus 0.2 - 0.3, when measuring the level of service in terms of bus kilometres provided. Whilst this is positive it is relatively unresponsive.

It is likely that the elasticity with respect to service frequency along a given public transport corridor could be slightly higher.

### **3.7.3 Income Elasticity**

Changes to the public's level of income (standard of living) have had the greatest long term influence on the demand for public transport through the link between higher household income and higher car ownership.

In relation to the private car, public transport must be considered as an “inferior good”, similar to the relationship between prime steak and cheap mince: as incomes rise people purchase less of the inferior good and more of the superior good.

Since the Second World War the standard of living has gradually risen, providing the underlying factor in the decline in public transport usage.

Income elasticity has been calculated as about minus 0.4 (NF and EC). Its value is negative due to public transport being an inferior good and reflecting the greater flexibility, convenience and perceived status of the private car.

A more narrow “state of the economy” elasticity has been calculated as about plus 0.15-0.2 (BAH). This elasticity measures responsiveness to short term changes in the economy and provides an explanation as to why in economic decline fewer people travel on buses, rather than switching from cars to buses as is commonly assumed.

The effects on public transport of the public's responsiveness to changes in income and the state of the economy are illustrated in the long term Statewide decline in patronage (Figure 3.2), the recent patronage turnaround in Burnie (Figure 3.7) and the recent patronage decline in Launceston (Figure 3.6).

### **3.7.4 Cross Elasticity**

This elasticity refers to how changes in the price of substitutes for public transport affect the usage of public transport.

The private car is the main substitute for public transport, and walking, bicycling and motor cycling are other alternatives.

Although a specific car price cross elasticity of demand for public transport is unavailable, an elasticity of car ownership (cars per person) has been calculated as being roughly minus 0.3-0.4 (BAH). For example, if car ownership goes up by 10%, then patronage would go down by 3-4%, which is relatively unresponsive. Also, the elasticity of petrol price has been estimated as plus 0.14 (NF and EC), which, although positive, is very unresponsive.

This relative unresponsiveness to car ownership belies the generally accepted international view that the price / availability of car parking in central business districts, of all the influences on public transport patronage, has the greatest short and medium term effects.

Thus, the factors with the greatest influence on patronage, standard of living and availability of car parking, are outside of public transport operators' control, whilst changes in the factors within their control, price and service levels, will have lesser long term effects.

### **3.8 Outside Influences On Passenger Numbers**

The study undertaken by BAH identified that outside influences beyond Metro's control were the most substantial determinants of passenger numbers. Such factors included:

- Population levels and the demographic mix of the population;
- Car ownership levels and general economic well being;
- Parking availability and charges (both for short-term parking and long-term parking);
- Changes in urban development patterns and the consolidation of employment; and
- Changes in environmental policies of Government and social attitudes to such matters as greenhouse impacts.

### **3.9 Distribution By Passenger Type**

Figures 3.8 to 3.11 illustrate trends in the composition of Metro's passengers by main ticket type, and the differences that exist between different centres.

#### **3.9.1 Statewide**

Overall, total adult passengers (full fare Adults and Adult Concessions) form a greater proportion of first boardings than total children (Student / Child and Free Student) and this proportion is slowly increasing (see fig 3.8 and 3.3).

Within the adult passenger market Adult Concession boardings are increasing as proportion of Total Statewide boardings whilst the proportion of full fare Adults is declining.

Within the young passenger market Student / Child patronage is more important than Free Student patronage, and whilst the former's proportion of Total Statewide has remained steady over the entire period, the latter's proportion has steadily fallen. This reflects the fact that the Student/Child passenger category contains two sub-markets, students travelling to and from school as well as young people travelling for non-school purposes.

### **3.9.2 Hobart**

As for Recent Passenger Trends, Hobart's overwhelming contribution to Statewide patronage results in a very similar distribution of boardings by passenger type.

However, Hobart's patronage (Figure 3.9) is less reliant on total children than patronage for the State as a whole.

### **3.9.3 Launceston**

Of the three operating centres, Launceston has the greatest reliance on the boardings of children; this reliance decreased in the first half of the period illustrated by Figure 3.10 but was largely steady in the second half. The level of Free Student boardings as a proportion of Total Launceston boardings decreased steadily over the entire period.

On the other hand, Launceston's Adult patronage is the lowest proportion of all three operating centres and this proportion decreased over the entire period. As for all operating centres, the importance of Launceston's Adult Concession patronage has increased over the entire period; for Launceston's overall patronage this passenger category is now easily the most important.

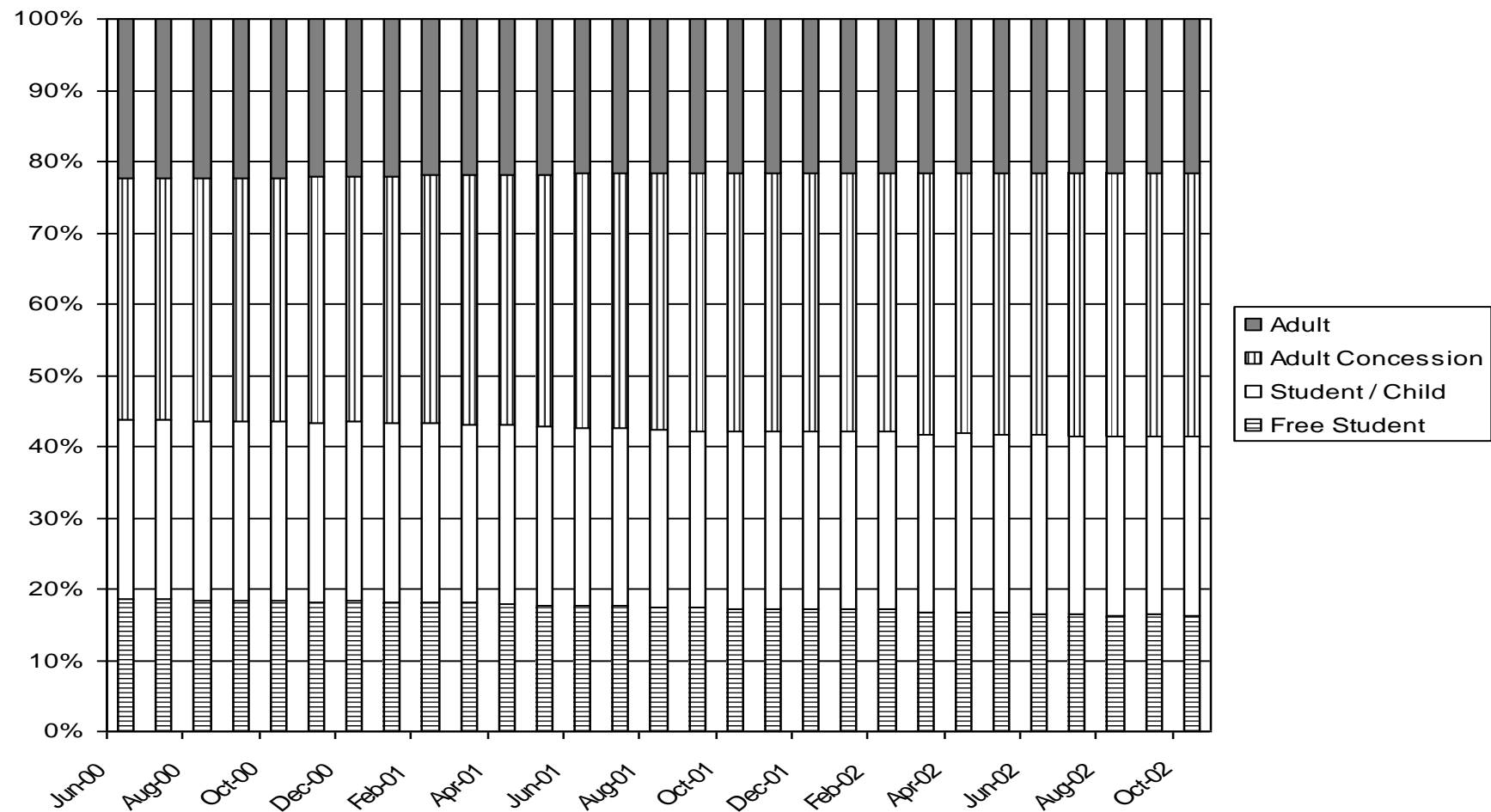
### **3.9.4 Burnie**

For Burnie the total boardings of adults and children are equally important over the entire period, June 2000 to October 2002 (see Figure 3.11).

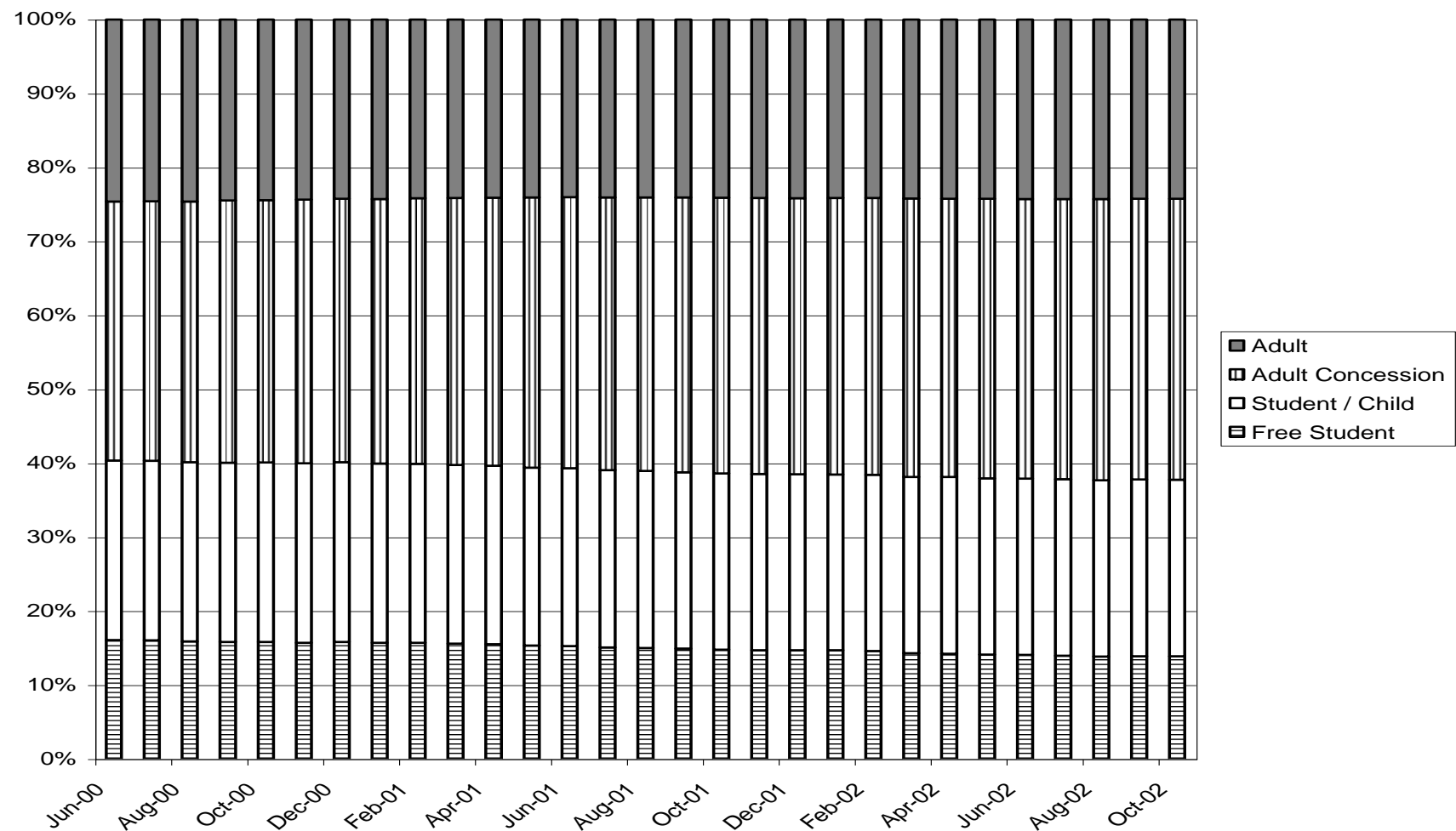
Burnie's reliance on Free Students decreased then recovered slightly during the first half of the period, then held steady in the second half. Patronage for Student / Child mirrored that for Free Students: increasing, falling slightly then steady.

Adult Concession boardings as a proportion of Burnie's Total patronage increased over the entire period at the expense of Adult patronage.

**Figure 3.8    Distribution of Statewide First Boardings for the Preceding 12 Months by Passenger Type**

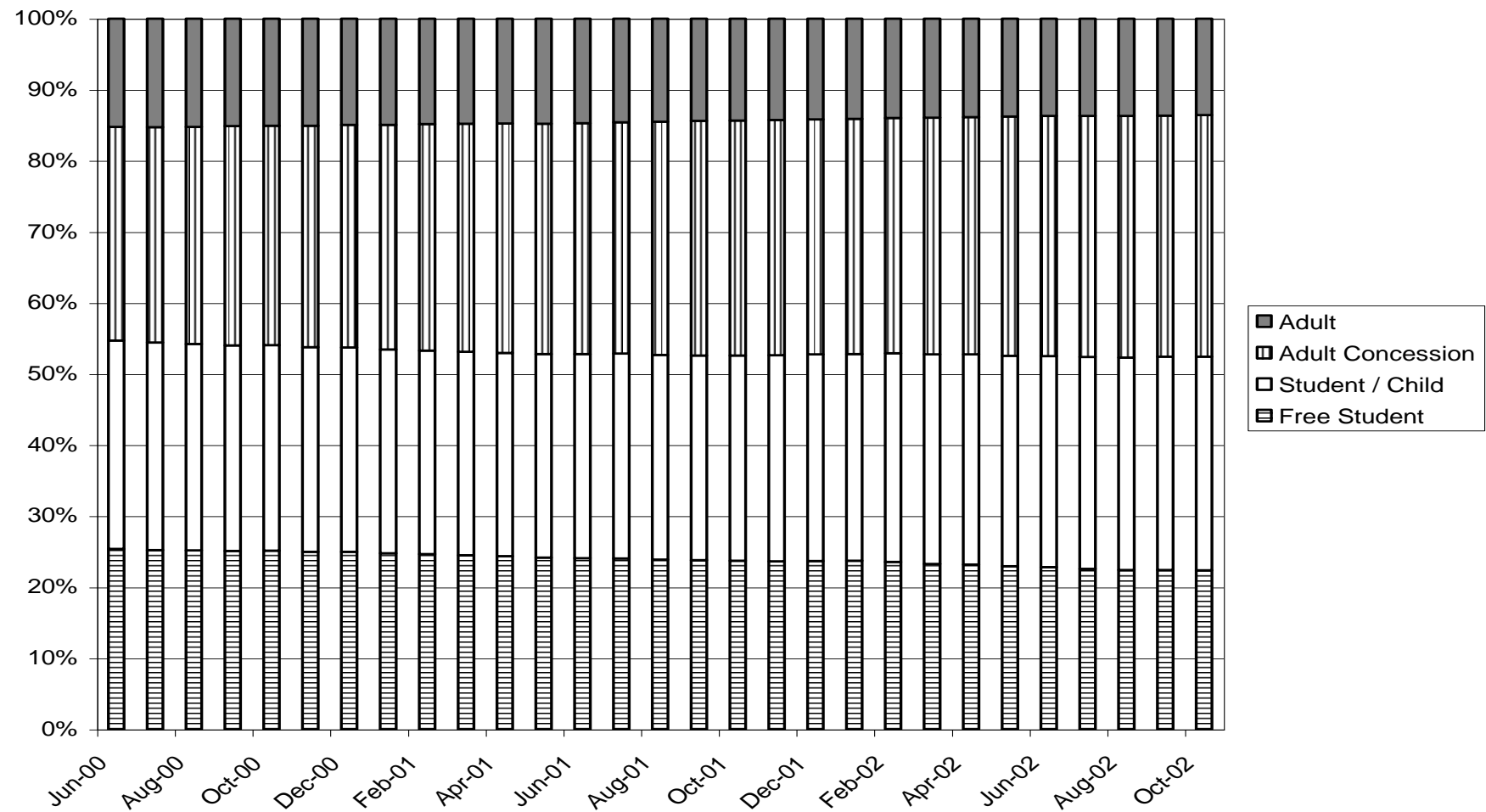


**Figure 3.9 Distribution of Hobart First Boardings for the Preceding 12 Months by Passenger Type**

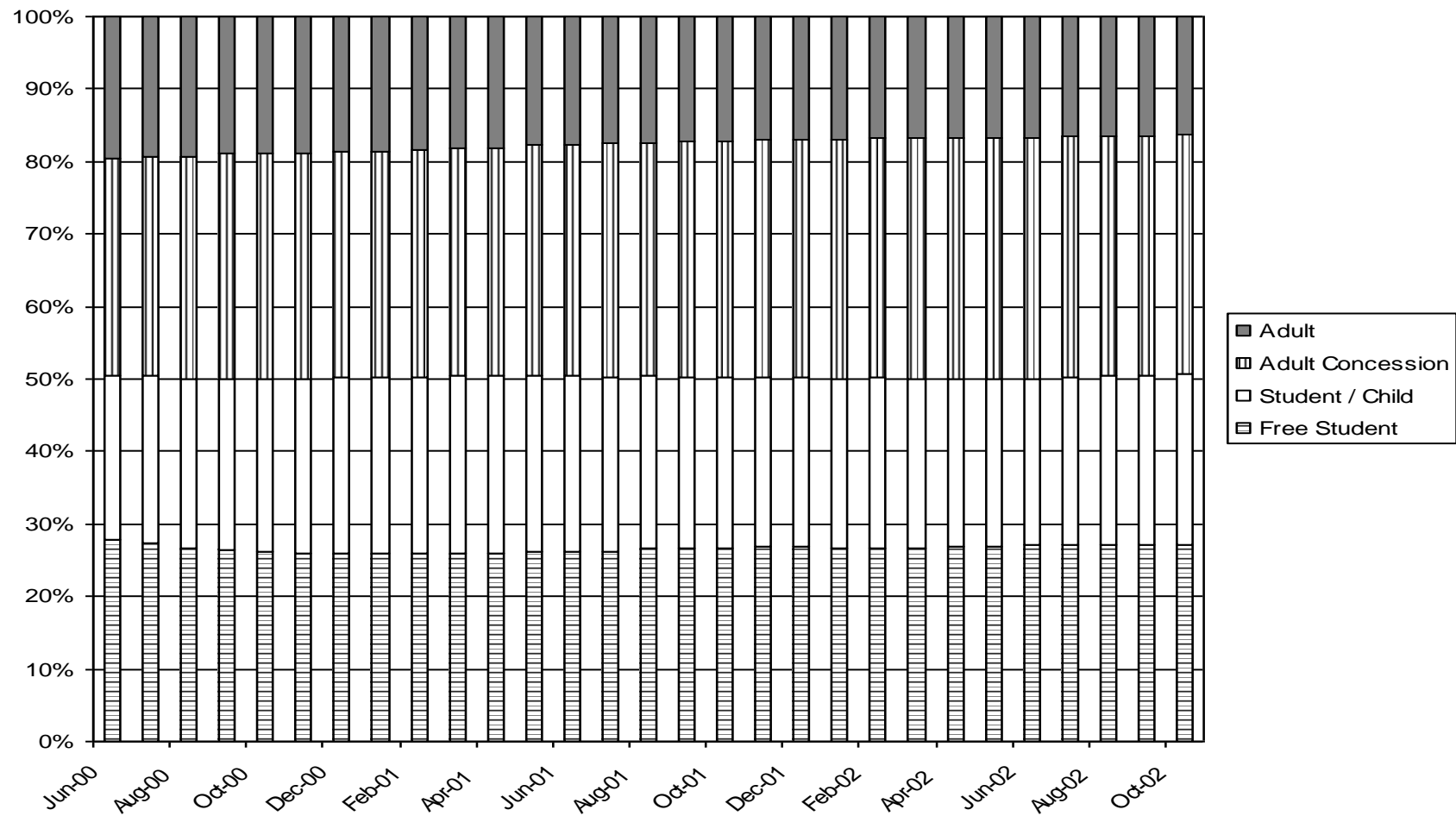




**Figure 3.10 Distribution of Launceston First Boardings for the Preceding 12 Months by Passenger Type**



**Figure 3.11    Distribution of Burnie First Boardings for the Preceding 12 Months by Passenger Type**



### **3.10 From The Passengers' Viewpoint**

In view of the above discussions on Recent Passenger Trends, Elasticity of Demand for Public Transport, and Distribution by Passenger Type, it is reasonably clear that public transport is more important to concession passengers (Adult Concession, Student / Child and Free Student) than to full fare paying passengers (Adult).

As a whole, Adult passengers have greater income and thus the flexibility to take up the private car as the preferred mode of travel. This influence of income elasticity is demonstrated in the steady decline that has been seen in adult patronage.

By comparison, Adult Concession passengers tend to have lower or fixed incomes, resulting in greater responsiveness to fare increases. Nonetheless, public transport is very important to this type of passenger due to the lack of alternatives for many individuals.

For people below about 18 years of age there are two markets; students traveling to and from school and general personal mobility. Public transport plays a key role in both these areas, with the journey to and from school being the more dominant. The inflexibility of school times coupled with fewer alternatives than adults leads to a high proportion of passengers being children. This relative lack of alternatives is illustrated by the greater reliance on buses in the afternoon when working parents are unable to provide transport from school.

### **3.11 Trends In Use Of Buses For Commuting**

Table 3.6 table shows changes in the use of buses for commuting to work between 1996 and 2001, using the Census data.

This table shows that, except for Sydney, bus urban public transport lost a significant amount of its market share over the five years between 1996 and 2001.

The market share of buses for the total commuter market varies from city to city due to their differing natures, particularly in relation to the scope of the public transport options available to the public, including train, light rail, tram, bus and ferry. Except for Sydney, Hobart's bus loss of market share is in line with the other cities.

**Table 3.6 Changes In Travel to Work by Bus**

	Total No. of Commuters		Percent Travel by Bus		Percentage Change in Market Share
	1996	2001	1996	2001	
Hobart	64676	64860	7.0%	6.0%	- 14.1 %
Newcastle	43451	45016	4.2%	3.5%	- 16.3 %
Wollongong	58345	60488	2.5%	2.0%	- 21.4 %
Sydney	1415512	1533253	6.2%	6.2%	+ 1.0 %
Melbourne	1175694	1290537	1.8%	1.5%	- 13.2 %

The very low utilisation of the bus for the journey-to-work is another reflection of public transport being seen as an “inferior good” in relation to the private car. As the standard of living rises people move away from public transport to the more flexible and convenient private car. This is reflected in the decline in Adult patronage levels identified in figure 3.3.

In recent years this trend has also been assisted by the introduction and promotion of inexpensive small cars, which are attractive to young women who previously used public transport.

## **4 METRO'S FINANCIAL PERFORMANCE**

### **4.1 Trends And Recent Information**

Table 4.1 illustrates the trends in some of the key financial and operating statistics for Metro.

Overall it can be seen that between 1989/90 and 2001/02 patronage has declined but that bus kilometres has increased, with a marked increase occurring in 1991/92 with the introduction of Metro express services.

The real cost to Government of purchasing services from Metro has declined dramatically over recent years when the actual costs are deflated by either the Consumer Price Index or the School Bus Index. In Table 4.1 both of these indexes have been adjusted to take account of the effects of the New Tax System due to the fact that this has impacted directly on Metro's cost structures (refer to section 10).

When Metro's cost are expressed in terms of costs per bus kilometre it can be seen that over this period Metro's cost were not only lower in actual dollar terms as well as being about 50% lower than in 1989/90. This is a significant achievement.

Ownership costs comprise depreciation and debt. As a proportion of total expenditure this was gradually increasing until 1995 as Metro continued to upgrade its fleet. In 1995 following the closure of the Ansair factory Metro did not acquire new vehicles for a period. As a result debt levels declined. In 2001/02 this ratio has again started to increase as a consequence of commencing a new bus replacement program.

Overall the real costs to Government per passenger trip is equal to what it was 10 years ago, and slightly higher than in 1989/90.

**TABLE 4.1 Financial Statistics from 1990**

TABLE 4.1 Financial Statistics from 1990		Financial Year Ended 30 <sup>th</sup> June												
		2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Statewide Patronage (000's)														
Fare paid boardings		8,323	8,228	7,941	8,072	8,459	9,123	9,967	10,077	10,663	10,567	10,950	12,118	12,503
Free school boardings		1,303	1,398	1,438	1,496	1,537	1,516	1,591	1,693	1,069	1,391	1,209	na	na
Total Patronage		9,626	9,626	9,379	9,568	9,996	10,639	11,558	11,770	11,732	11,958	12,159	12,118	12,503
The Total Kilometres														
Km		10,278	10,262	10,331	10,374	10,339	10,822	10,933	11,068	10,582	10,592	10,398	9,321	9,416
Passenger per km		0.94	0.94	0.91	0.92	0.97	0.98	1.06	1.06	1.11	1.13	1.17	1.30	1.33
Cost to Government (000's)														
\$		19,346	18,829	18,730	18,300	18,324	19,335	20,727	19,305	20,067	19,392	19,561	18,813	17,326
real terms		14,391	14,377	14,806	14,939	15,020	15,940	17,187	16,486	17,853	17,726	18,281	17,748	17,326
(Deflated by a NTS Adjusted SBI)		14,099	13,869	14,335	14,477	14,802	15,893	17,415	16,785	1,7746	17,560	18,040	17,987	17,326
Average fares revenue per boarding	\$	0.76	0.75	0.82	0.81	0.80	0.79	0.68	0.68	0.64	0.66	0.66	0.67	0.64
real terms		0.57	0.57	0.64	0.66	0.66	0.65	0.56	0.58	0.57	0.60	0.62	0.63	0.64
Average fares revenue per boarding														
(excluding free travel boardings)	\$	0.88	0.87	0.96	0.96	0.95	0.92	0.79	0.79	0.71	0.74	0.74	0.67	0.64
real terms		0.65	0.66	0.76	0.78	0.78	0.76	0.65	0.67	0.63	0.68	0.69	0.63	0.64
Operating Expenditure per km														
(excluding abnormals)	\$	2.73	2.72	2.67	2.62	2.82	2.81	2.98	2.85	2.94	2.95	3.10	3.24	3.01
real terms		2.03	2.08	2.11	2.14	2.31	2.32	2.47	2.44	2.62	2.70	2.90	3.06	3.01
Ownership Costs as a % of total														
expenditure (excluding abnormals)	%	10.9	10.3	11.8	12.7	13.9	16.0	17.5	18.5	18.6	17.7	17.2	17.0	16.4
Subsidy per trip (excluding abnormals)														
\$		1.98	1.96	1.93	1.87	1.82	1.81	1.93	1.70	1.65	1.55	1.60	1.51	1.38
real terms		1.47	1.50	1.53	1.52	1.49	1.49	1.60	1.45	1.47	1.41	1.49	1.42	1.38
CPI deflator (1989/90 = 100)														
		134.5	130.9	126.5	122.5	122	121.3	120.6	117.1	112.4	109.4	107	106	100
NTS Adjusted SBI (1989/90 = 100)														
		137.2	135.8	130.7	126.4	123.8	121.7	119.0	115.0	113.1	110.4	108.4	104.6	100

**Note:** Real values are calculated using the Hobart CPI adjusted for the New Tax System, except where New Tax System Adjusted SBI is used.

## 4.2 The Calculation Of The CSA Payment

The Community Service Activity (CSA) Payment made by Government in return for the delivery of services has its derivations in the deficit funding approach adopted in the days of the MTT.

The MTT received Government funding equal to the difference between the cost of operating the services less the revenues gained from fares and other activities (such as charter work and advertising). This form of funding provided only limited incentive to generate efficiencies on the one hand, or to increase revenues on the other. The only impact of such achievements was a reduction in the subsequent levels of Government funding.

In setting up Metro as a GBE and issuing the initial CSA Agreement (covering the period from 1 November 1997 to 30 June 2000) the CSA payment was set by Government as equal to a fixed amount of funding (calculated as the funding for the previous financial year less an efficiency target). Reaching this target required co-ordinated action to both increase the revenues from passengers and reduce the expenditure per bus kilometre. Table 4.1 illustrates the significant changes from 1995/96 to 1997/98 that resulted. There is a noticeable increase in fares revenue per kilometre, an associated decline in passengers per bus kilometre (due to elasticity responses) and a substantial reduction in the cost to Government. Table 4.1 also illustrates that this was achieved without a substantial reduction in bus kilometres, indicating that the focus was more on re-allocating kilometres to enable more efficient operation, as well as other operational and administrative efficiencies.

The adoption of a break-even approach to the funding of Metro has also been continued within the two CSA Agreements that have followed. The first being an extension Agreement covering the 2000-01 financial year and the second being the current Agreement running from 1 July 2001 to 30 June 2004. The continuation of this approach stems from a budget driven process whereby the funding of Metro is based on what Metro received last year adjusted first for indexation and secondly for any policy changes (such as taking into account the expected effects of the New Tax System). The opportunity has not been taken to redefine the CSA Payment on the basis of Metro being funded as a fully commercial operation requiring a return on equity. This approach is not consistent with the requirement for Metro to operate in a sound commercial manner as stipulated in the *Metro Tasmania Act* (see section 4.3 for further discussion of this point).

Metro is now in the currency of its third CSA Agreement since its establishment as a State Owned Company. Again the CSA Payment has been estimated as the net amount required to cover Metro's costs of service provision when all other revenue sources are taken into account.

The current CSA Agreement also incorporates mechanisms designed to adjust the CSA Payment in line with movements in Metro's costs (represented by the Metro Index), and to also adjust the CSA Payment for other policy changes or decisions of

Government that reduce the real value of fares. However, the CSA Payment is not adjusted for any decline in fares revenues due to a decline in passenger numbers as expected on the basis of long-term trends (expected to be between 2 to 2.5 %). To overcome this loss in revenue Metro is expected to become progressively more efficient. The real value of Metro's revenues also declines due to the in-built delays in adjusting fares revenues or the CSA Payment for movements in the Metro's costs.

In theory the setting of the CSA Payment so as to maintain pressure on Metro to become progressively more efficient has merit for Government. However, there are particular difficulties when there are errors in the assumptions made in estimating the CSA Payment required to balance revenues and expenditures, or when the Metro Index proves to be inaccurate as a means of measuring Metro's costs, or when key elements of Metro's revenue streams do not maintain their real value for one reason or another (such as with the recent national downturn in advertising). This pressure is made greater due to the "break-even" approach to calculating the CSA Payment.

In section 10 Metro presents evidence relating to a combination of factors that has resulted in the real value of the CSA Payment declining, and argues for adjustments to the Metro Index to rectify these problems. The Department is currently considering these matters.

Table 4.1 illustrates the fact that the real value of the Government outlays on Metro have declined by 22% over the last 10 years whilst the level of bus kilometres delivered has stayed roughly the same. By comparison the system established by Government to fund the private bus industry is structured to increase funding in line with the movements in the School Bus Index. By definition this means that Government funding of Metro has declined by 22% by comparison to the level of funding for the private bus industry.

In calculating the CSA Payment reliance is also placed on obtaining a certain level of income from other sources. Two of these other sources are charter and advertising.

Charter is an area where Metro obtains only a limited return once the costs of providing the services are taken into account. Charter operations also only amount to less than 2% of total bus kilometres. Thus an expansion or contraction of activity in this area within realistic limits has almost no impact upon the bottom line of the company.

By comparison advertising revenues have been fairly significant. It is also the case that at the time the CSA Payment under the current contract was established the advertising market was reasonably buoyant. In 2000 there were substantial national advertising campaigns with the Sydney Olympics, the GST and Y2K. Since then the advertising market has turned sour and revenues from this area have fallen. Because of the "break even" approach to funding it is more difficult for Metro to average out revenues from this source over the good and bad years. The scale of the variance between the "highs" and the "lows" is of the order of \$350,000 in a year. Variations of this magnitude are extremely difficult to accommodate within a break even budget framework, and actually discourage Metro from seeking out revenue streams that are likely to be subject to such variability.



### **4.3 Return On Capital/Profit Versus “Break-Even” Funding**

Desirably the CSA Payment should be calculated to provide Metro with sufficient revenues to provide shareholders with a commercial return on the equity that has been invested in the company. However, with the CSA Payment being calculated so that revenues received from all sources are just sufficient to meet operating costs and capital depreciation only, Metro is not able to generate sufficient revenue to provide a commercial return and nor is it able to generate the revenues required to properly invest in capital replacement or invest in business expansion. The Auditor-General noted in his 2002 review of GBEs and SOC's that Metro was unable to generate a commercial return due to its method of funding.

It is Metro's view that the contract for the provision of services (CSA) with government should adequately compensate Metro for the **full costs** of operating the service, which in all normal commercial environments would incorporate a return on equity. Despite this view being repeatedly expressed, Metro has been unable to effect changes to the contract payment to support a commercial return.

Metro remains of the view that the current financial arrangements fail to recognise the significant investment the government has in Metro and also disguises the true commercial costs of Metro operating the business.

The government as shareholders have advised Metro that there is no expectation that the company provides a return.

## 5 METRO FARES POLICIES AND COMPARISONS

### 5.1 Current Fares Policies

Metro's fares are specified in Schedule 3 of the CSA Agreement and as such are now provided to Metro by Government. They are subject to a major review through the GPOC process every 3 years.

The fares policies that are contained in Schedule 3 of the CSA Agreement are derived from the fares schedule that had been developed by the Government and MTT prior to the advent of GPOC or the CSA Agreement process. Adjustments to this basic fares policy since the advent of the GPOC process have been by way of adjustments to the dollar levels of the fares rather than a major restructuring of the underlying fares structure. The options for making fundamental changes in fares policies are constrained by the Metro ticketing system and the difficulties associated with its modification. Once a new smart-card based ticketing system is introduced there will be more flexibility to modify Metro's fares policies.

Although theoretically the fares policy is set by Government through the Agreement the reality is that Metro would have a significant influence upon shaping any fundamental change in fares structure due to its extensive operational knowledge and responsibilities.

The current system for changing fares has been outlined in section 2.4. This process tends to favour the marginal increment or indexation of the existing fare structure, and is not well suited to achieving a major overhaul of the fares policies.

The current Metro fares policy is based on the following structure for ticket and transfer rules:

- Fares for Adult passengers are section (distance) based with 5 ranges of sections and a ceiling for long-distance travel (11 or more sections);
- Fares for other passengers (Adult Concessions, Student/Child and free-pass students) are flat fares in that the fare paid entitles the traveler to unlimited travel (although the free pass student this is only for travel to or from school). Tertiary students also are able to obtain "flat fare" travel provided they purchase multi-ride tickets.
- Metro tickets allow for free transfers provided that the boarding of the second bus, and subsequent buses, is within 90 minutes of first boarding the bus in Hobart or Launceston, or 60 Minutes in Burnie. The direction of travel on the second bus is at the passenger's discretion permitting the transfer to be a short duration return trip.
- About half students travelling to and from school are eligible for free bus travel (using a Departmental pass), but no transfers are permitted. If a transfer is required the free travel pass is re-shown to the driver and a second ticket issued.
- Day tickets are available on the bus through Day-Trippers and Day-Rovers. These permit unlimited travel for the day for boardings after 9:00 am (Monday to Friday) or at any time on weekends or public holidays. Day-rovers are available

for full fare Adult passengers, whilst Day-Trippers are for Concession, Student, Child and Tertiary Student passengers.

- Senior Card holders can purchase a day ticket that permits unlimited travel at any time.
- Discounts of 20% are provided for people pre-purchasing ten-ride or ten-day tickets through Metro's agent system to encourage bus travel and speed bus entry (about x% pre-purchase);
- Time based tickets (monthlies) are also available as pre-purchased discount tickets but just for students (primary, secondary and tertiary) at a price of 4 times the relevant Metro-10 fare.
- Tertiary students – pay full adult fares for single trips. However, special ten ride and monthly tickets allow unlimited travel at discounted prices.

Further details about passengers who are entitled to free fares (tickets issued) or free travel (no tickets issued) are shown in Attachment B.

Metro applies the same fares in Hobart, Launceston and Burnie, except monthly tickets are not available in Burnie. The current fares are set out in Table 5.1.

**TABLE 5.1: METRO BUS FARES - AS FROM 15 SEPTEMBER 2002**

Category	Single	Daily	10 Trip	10 Day	Month
<b>Adult</b>					
Section 1-2	1.40		11.20		
3-4	1.80		16.80		
5-7	2.10		15.20		
8-10	2.30		18.40		
11+	3.20		25.60		
Off-peak multi trip		3.60		28.80	
<b>Adult concession</b>					
All sections	1.40		11.20		
Concession off-peak multi-trip		2.20		17.60	
Seniors all day multi-trip		2.30		19.30	
<b>Family</b>					
Family off-peak multi-trip		10.20			
<b>Children and school students</b>					
Under 5 years of age					
– other than to/from school or day care centre			no charge		
– day care centre group travel	.60				
<b>Child Under 16 years of age or Secondary Student travelling to or from School</b>					
– all sections	1.20	2.20	9.60	17.60	38.40
<b>Tertiary Students (full time)</b>					
Section fares	As per adults		11.50		46.00
Tertiary off-peak multi-peak		2.20		17.60	
<b>Parcels</b>					
– other than passengers' luggage of approved size and weight		1.40			

## 5.2 Detailed Breakdown Of Boardings And Ticket Use

Tables 5.2 and 5.3 provide a detailed break-up of Metro's boardings and estimated ticket sales for 2001/02.

This information shows that:

- The top 3 categories of first boardings are associated with single day-tripper tickets (20.8%), free student tickets (16.7%) and Child/Student Metro-10s (10.9%).
- Some 34.5% of total Metro boardings are associated with cash sales to passengers and a further 13.9% involve the issuing of free student tickets.
- Only 19.9% of Metro first Boardings are associated with travel involving a distance based fare.
- Some 50.4 % of Metro tickets issued are associated with a single trip whilst a further 27.5% are associated with free student travel.

## 5.3 Past Fare Trends And Developments

In the period 1985 - 1991, Metro's fares were generally adjusted annually. During the 1990's fare increases became less frequent and consequently more substantial.

This had a particularly negative impact upon patronage:

- January 1995: an increase of about 10% on adult and child cash fares, and about 15% on Concession and Student/Child 10-trip fares.
- July 1996: a further increase of about 10-15% on adult and child cash fares, about 20% on adult 10-trip fares and 37% on Concession and Student/Child 10-trip fares (to standardise the discount on Metro-10's at 20% relative to cash fares).
- July 2000: fares (other than Student/Child fares) were increased by on average 8.2% to coincide with the introduction of GST. Part of this increase (4.3%) was associated with the effects of GST and the balance (3.9%) was associated with movements in the CPI from the start of the 1997 GPOC Order. Student/Child fares were not increased
- September 2002: fares (other than Student/Child fares) were increased by on average 6.3% in September 2002 in line with movements in the Metro Index. Again Student/Child fares were retained at the July 1996 levels.

TABLE 5.2: DISTRIBUTION OF BOARDINGS, TRANSFERS AND TICKETS FOR 2001/02

Ticket Type	Metro Fares	First Boardings	% distribution of first boardings		Transfers	Total Boardings	Estimated Tickets	% distribution of Tickets	
			Of Sub Totals	Of Total				Of Sub Totals	Of Total
Adult (Full Fare)									
1-2 sec	\$1.30	423,573	25.9%	5.4%	8,475	432,047	423,573	39.2%	8.9%
3-4 sec	\$1.70	345,754	21.2%	4.4%	17,468	363,221	345,754	32.0%	7.3%
5-7 sec	\$2.00	177,248	10.8%	2.3%	23,109	200,357	177,248	16.4%	3.7%
8-10 sec	\$2.20	30,869	1.9%	0.4%	8,298	39,166	30,869	2.9%	0.7%
11-15 sec	\$3.00	6,979	0.4%	0.1%	840	7,819	6,979	0.6%	0.1%
1-2 M10	\$10.40	144,252	8.8%	1.9%	1,657	145,909	14,425	1.3%	0.3%
3-4 M10	\$13.60	217,708	13.3%	2.8%	6,965	224,673	21,771	2.0%	0.5%
5-7 M10	\$16.00	159,389	9.8%	2.0%	10,656	170,045	15,939	1.5%	0.3%
8-10 M10	\$17.60	33,549	2.1%	0.4%	2,716	36,265	3,355	0.3%	0.1%
11-15 M10	\$23.10	8,278	0.5%	0.1%	776	9,054	828	0.1%	0.0%
Day Rover #	\$3.40	81,685	5.0%	1.0%	29,609	111,293	38,897	3.6%	0.8%
Rov 10 Day #	\$26.50	5,370	0.3%	0.1%	2,144	7,514	257	0.0%	0.0%
Sub-Total (Adult)		1,634,651	100.0%	21.0%	112,711	1,747,362	1,079,893	100.0%	22.8%
Adult Concession									
Ad Con	\$1.30	629,447	21.8%	8.1%	161,150	790,597	629,447	42.6%	13.3%
Ad Con M10	\$10.40	433,981	15.0%	5.6%	107,327	541,307	43,398	2.9%	0.9%
Day Trip #	\$2.10	1,623,629	56.2%	20.8%	635,435	2,259,064	773,156	52.3%	16.3%
Trip M10 #	\$16.80	149,171	5.2%	1.9%	70,314	219,485	7,137	0.5%	0.2%
Sen Day #	\$2.20	54,410	1.9%	0.7%	25,123	79,533	25,909	1.8%	0.5%
Sen M10 #	\$19.30	63	0.0%	0.0%	9	72	3	0.0%	0.0%
Family #	\$9.60	322	0.0%	0.0%	61	383	49	0.0%	0.0%
Sub Total (Concession)		2,891,021	100.0%	37.1%	999,419	3,890,440	1,479,099	100.0%	31.2%
Child/Student									
Ch/Sch	\$1.20	772,227	25.2%	9.9%	158,899	931,126	772,227	35.7%	16.3%
Ch/Sch M10	\$9.60	853,228	27.9%	10.9%	165,593	1,018,821	85,323	3.9%	1.8%
Ch/Sch Mth	\$38.40	130,388	4.3%	1.7%	49,573	179,961	3,119	0.1%	0.1%
Free	\$0.00	1,303,180	42.6%	16.7%	0	1,303,180	1,303,180	60.2%	27.5%
Sub Total (Child/Student)		3,059,023	100.0%	39.2%	374,064	3,433,086	2,163,849	100.0%	45.7%
Tertiary Students									
Tert M10	\$10.80	143,221	68.3%	1.8%	48,830	192,050	14,322	90.0%	0.3%
Tert Mth	\$43.20	66,449	31.7%	0.9%	29,108	95,557	1,586	10.0%	0.0%
Sub Total (Tertiary)		209,670	100.0%	2.7%	77,938	287,607	15,908	100.0%	0.3%
Totals		7,794,364			1,564,131	9,358,495	4,738,749		

Note: # For Day Tickets there are about 2 first boardings per ticket. Where a boarding is more than 90 minutes after the initial boarding it becomes counted as a new first boarding rather than being counted as a transfer.

**Table 5.3: SUMMARY DISTRIBUTION OF METRO BOARDINGS AND TICKETS**

<b><u>Distribution of Total Boardings:</u></b>	<b>Number</b>	<b>%</b>
<i>On Board Cash Sales (first boardings)</i>	3,224,137	34.5%
<i>Pre-paids (first boardings)</i>	2,190,442	23.4%
<i>Pre-paids (first boardings and transfers)</i>	2,686,108	28.7%
<i>Free Students</i>	1,303,180	13.9%
<i>All Transfers and Validator Day Ticket boardings</i>	2,640,737	28.2%
<b>Total Boardings</b>	<b>9,358,495</b>	<b>100.0%</b>

<b><u>Distribution of Trips by Fare Type</u></b>	<b>Number</b>	<b>%</b>
<i>Distance related</i>	1,547,597	19.9%
<i>Flat fares (excluding free students)</i>	4,943,588	63.4%
<i>Free Students</i>	1,303,180	16.7%
<b>Total Trips</b>	<b>7,794,364</b>	<b>100.0%</b>

<b><u>Distribution of Tickets</u></b>	<b>Number</b>	<b>%</b>
<i>Single trip tickets</i>	2,386,095	50.4%
<i>Single Day tickets</i>	838,015	17.7%
<i>Pre-paid tickets</i>	211,460	4.5%
<i>Free Students</i>	1,303,180	27.5%
<b>Total Tickets</b>	<b>4,738,749</b>	<b>100.0%</b>

<b><u>InitialSmart-Card Market</u></b>	<b>Number</b>	<b>%</b>
<b>Boardings readily convertible to smart-card #</b>	<b>4,143,891</b>	<b>44.3%</b>
Others:		
<b>Day Ticket (driver transaction)</b>	<b>838,012</b>	<b>9.0%</b>
<b>Day Ticket (validator transaction)</b>	<b>1,612,260</b>	<b>17.2%</b>
<b>Other Cash sale first boardings</b>	<b>2,386,095</b>	<b>25.5%</b>
<b>Section based transfers</b>	<b>58,189</b>	<b>0.6%</b>
<b>Flat fare cash sale transfers</b>	<b>320,049</b>	<b>3.4%</b>
<b>Total Boardings</b>	<b>9,358,495</b>	<b>100.0%</b>

Note: # Pre purchased ticket boardings (including transfers) plus free school pass boardings

## **5.4 Metro Fare Issues:**

### **5.4.1 General Constraints And Future Direction**

There are a number of inconsistencies within Metro's current fare structure as well as between Metro's fares and those of private sector bus operators.

Metro is aware that the Department is working towards the adoption of a more consistent fares policy and is committed to working with the Department in achieving that outcome.

Metro sees this GPOC review as an opportunity to identify a number of steps that can be taken on the road to removing some of the existing inconsistencies and would be happy to work with GPOC and the Department in doing this. A number of areas where progress could be made in this regard are identified in this submission.

An existing constraint that needs to be taken into account is the practical limitations of Metro's Crouzet ticketing system to adapt to a changed fare structure, within reasonable constraints of time and cost. However, as outlined below in section 5.5 Metro intends to introduce a new smart-card based ticketing system within the next few years. This offers the opportunity to introduce more substantive changes to Metro's fare structure.

Changes in fares policies will impact upon the demand for Metro services (and hence the cost of supply) as well as the revenue generated from passengers. This in turn will impact upon the need for funding support from Government. The financial implications of any changes must be clearly identified given the competing priorities for limited Government funds.

Metro remains fundamentally of the view that the three key features of any new fares structure should be:

- Distance based fares – longer travel should result in higher fares;
- Time based fares – there should be a distinction between peak and off-peak travel; and
- Community Service Funding for non-commercial fares.

### **5.4.2 Section Based Fares Versus Zonal Fares**

Metro has operated distance-based fares based on sections of approximately 1 mile (1.6Km) for many years. Sectional based fares have only applied to full-fare adult passengers for the last 30 years, before 1972 fares for concession passengers were also based on sections. The number of sections a ticket is valid for are grouped into bands; since 1992 there have been five bands: -

- 1 – 2 Sections
- 3 – 4 Sections
- 5 – 7 Sections
- 8 – 10 Sections, and
- 11 or more Sections.

The 1.6Km per section rule for each section has not been strictly applied for longer distance travel. This is particularly apparent in the northern and eastern suburbs of Hobart - Chigwell, Austin's Ferry, Bridgewater and Brighton, Clarendon Vale, Lauderdale and Opossum Bay, and also in the Burnie area with Wynyard and Ulverstone.

Suggestions are made from time to time that Metro's fares should be zonally based. Although there may be some benefits in terms of simplicity, the current system offers flexibility for passengers.

The flexibility is delivered through passengers effectively being able to define their own zones. The zones can be based on a regional shopping centre or on any other location, including employment, entertainment, medical or personal destination.

Greater flexibility is also delivered through the electronic ticketing system, which provides for free transfers on almost all tickets. Transfers may be made within 90 minutes (60 minutes in Burnie) of the first boarding. The availability of transfers allows for through ticketing for cross-town travel, whilst for short trips with a quick turnaround a return journey is possible

The artificial process of defining and imposing zones would inevitably introduce anomalies and some level of dissatisfaction amongst passengers whose travel does not fall completely into one zone. This problem is very significant for passengers whose wish to travel relatively short distances across zone boundaries, in these cases a low value sectional ticket is sometimes made available.

The application of a zonal system would have different implications in Launceston because of the relatively compact extent of Metro's service area; Metro's operations in Burnie extend to Wynyard and Ulverstone. This introduces further difficulties.

Passengers would be adversely affected by the likely increase in a significant number of fares through the creation of a small number of zonal fares.

Detailed proposals have not been submitted to Metro, however it is thought that zones could be set-up on a radial or regional/catchment basis. In both cases anomalies and passenger dissatisfaction would arise.

It would be very difficult and expensive to implement a zonal system on Metro's Crouzet electronic ticketing system, which operates in Hobart and Launceston, the Wayfarer system in Burnie would probably present fewer difficulties.

Overall Metro believes that a section based fare structure is more equitable and more acceptable to the community.

#### **5.4.3 Metro's Section Based Fare Structure For Full Fare Adults**

Three elements of Metro's current section based fare system for full fare paying adults have been identified as areas of concern to some people. These areas are:

- Anomalies between the section boundaries;
- The capping of fares for 11 or more sections; and
- The uneven gradation of fares between section bands.



As identified above the section system is based on a distance of 1.6 kms per section, with the distance measured in a straight line over land. There are a number of anomalies that were created in the establishment of section boundaries to the northern suburbs and on the eastern shore. For example Hobart to Bridgewater is 21 kms but is a 9 section trip, Hobart to Opossum Bay is 50 kms and is a 16 section trip whilst Hobart to Lauderdale is 17 kms and is an 8 section trip.

Some anomalies have arisen through the impact of the availability of different routes of different lengths providing travel to the same destinations. This occurs mostly in Hobart because of the layout of the city and the optional bridges to cross the Derwent River, and the development over many years of highways as options to more circuitous main roads. The combination of routes at off-peak times also introduces inconsistencies.

The effect of these adjustments has been to distort the relationship between distance traveled and the fare charged for full fare Adult passengers.

A related issue is the fact that Metro fares are capped at 11 or more sections. Theoretically an 11 section journey is 17.6 kms, although due to distortions in implementation the maximum fare normally applies for trips of 20-25 kms or more.

If the Department and/or GPOC wished to introduce a more consistent distance based fare structure for Metro then there would need to be a review of section boundaries, as well as a review of the capping of fares for 11 sections and above.

Reference to Table 5.1 shows the current increments in fares from one section band to the next are 40 cents, 30 cents, 20 cents and then 90 cents. The increment between trips of 10 and 11 sections is very significant, and to a certain extent reflects the fact that the width of outer sections tends to increase.

Any review of section boundaries would also need to give consideration to the appropriate fares increments that should apply from one section band to the next. Possible options could include having 6 section bands with increments of 40 cents between each; or 4 section bands with an increment of 60 cents between each. It is consistent with Metro's key fares principles, outlined in section 5.4.1 above, for there to be more section band with a small but consistent increment between each. The adoption of such a fares structure would be difficult to achieve in the short-term with the constraints of the existing Crouzet system.

#### **5.4.4 Distance Based Concession And Student/Child Fares**

In its 1997 and 2000 reports GPOC has made the observation that many States apply a fares policy for concessional travel that sets fares at 50% of the full adult fare. A similar pricing policy often applies to children. GPOC has gone on to observe that the application of a similar policy in Tasmania would result in fare reductions for a significant number of passengers, given that the single Concession fare is \$1.40 and the Student/Child fare is \$1.20.

Metro responded to this position in the 2000 review by highlighting the fact that many Concession travelers obtain a lower fare through use of the Day-Tripper all day ticket which effectively reduces the per trip fare to \$1.10 if two trips are taken, with even greater reductions where more trips are made.

When reviewing this policy against shareholder expectations<sup>9</sup>, and taking into account the higher price elasticity of concessional travelers, it is likely that the adoption of a policy where concessional travel was set at 50% of adult full fares would promote achievement of the shareholders expectations.

From a practical perspective the adult fares would need to be in multiples of twenty cents to enable the concessional fares to be in ten-cent increments. Five cent coins are not practical for public transport operation.

If such an approach were adopted for Concession fares then a similar approach should also be adopted for Child fares.

The adoption of such a fares policy would be consistent with Metro's key pricing principles (see section 5.4.1) and it is also consistent with the approach adopted in the private sector within Tasmania, where the Departmental approved fare for concession travelers is the same as for child passengers and is set at 50% of the adult fare.

The implementation of such a policy would be difficult to achieve with the existing Crouzet ticketing system.

#### **5.4.5 Student Versus Child Fares**

Metro currently provides a special concessional fare for students (primary and secondary) whether they are traveling to or from school or traveling at other times.

In the private bus industry in Tasmania these passenger types pay a special student fare when traveling to or from school and 50% of the adult fare otherwise.

Throughout the bus industry certain passengers qualify for free travel to and from school, and this relates only to that travel.

Given that the Government has kept student fares fixed as part of the last two fare increases it is time to consider Metro charging different fares for students traveling to and from school as opposed to travel at other times. This would be a positive step towards achieving consistency with the fares policies applied in the private sector within Tasmania. Such a policy could be achieved with the existing Crouzet system by essentially classifying "child" travel as being "concessional". If separate "child" and "adult concession" tickets were required, in addition to the existing student tickets, then consideration of such a change would need to be deferred until the new ticketing system is introduced.

Under such an approach Student fares would be determined by the Government's overall student fare policy. Child fares would be set at the same fare level as Concession travelers.

If such a change were to be considered then special consideration would need to be given to the future of the student/child monthly ticket. As can be seen from table 5.2 there is relatively low demand for this ticket product at this point in time.

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<sup>9</sup> Refer attachment A1, in particular..... *to provide travel opportunities to access services and facilitate social interaction for those in the community without access to private means of transport.*

### 5.4.6 Other Discount Fares

There are three other basic discount fares available on Metro services.

Off-peak day travel is available using Day-Tripper or Day-Rover tickets. These provide travelers with unlimited travel on a given day provided that the first boarding is after 9:00am on weekdays, or any time on weekends or public holidays. The Day-Tripper is available for Concession travellers, Children and Tertiary Students. The Day-Rover is available for full fare adults<sup>10</sup>.

Pre-paid ten-ride tickets purchased through the Metro Shop or via one of Metro's wide range of agents attract a 20% discount compared to the single fare available on the bus. The discount is to encourage regular travelers and to speed bus boardings. Metro also offers a limited range of monthly tickets for Primary/Secondary Students and Tertiary Students. Overall only about 29% of all first boardings involve the use of pre-paid tickets, although this % increases if free pass students are excluded (refer table 5.2).

The third area for discount or concessional travel relates to passengers who qualify for travel at concessional fares. These include:

- Primary and secondary school students (as outlined in section 5.4.4)
- Tertiary Students<sup>11</sup>
- Adult Concession passengers.

The range of passengers who have access to Adult Concession fares is significantly greater in Metro's operation than other operators in Tasmania. It is also considered to be greater than in similar metropolitan bus operations elsewhere in Australia. The most significant difference in this regard is the extension of concessional ticket eligibility to Welfare Beneficiaries which includes all Health Care Card holders.

The population in Metro's operating areas as reported from the 2001 census and the numbers of adults eligible for concession fares are shown in table 5.4. This information has been adjusted to take into account the fact that Metro does not currently service Kingston and Blackmans Bay, but does operate services to Wynyard and Ulverstone. The number of persons eligible for adult concession fares has been obtained from Centrelink and the Department of Veterans Affairs using the same geographic boundaries. This information is also presented in table 5.4.

The 'Concession A' category includes Pensioners together with a number of Health Card Card holders (New Start, Youth Allowance, Low Income and Widows Allowance). These people are eligible for concession travel on all regular passenger bus services in Tasmania, both Metro services and the private sector fare paying route services.

The 'Concession B' category identify those persons with "other" 'Health Care Cards' and 'Veterans Affairs' cards. These persons are eligible for concession fares on

<sup>10</sup> There is also a Seniors all-day ticket which is available for all-day travel without any restriction on boarding time for those with Seniors Cards. Since the changes to Day-Tripper afternoon hours there has been very little demand for Seniors Day tickets.

<sup>11</sup> Only full time students at Tasmanian TAFE colleges, the University of Tasmania and Australian Maritime College are eligible for discount pre-paid tickets..

Metro (and MerseyLink) services but not on other private sector fare paying route services.

In addition, there a number of other smaller groups that are eligible for free or concessional travel on Metro services such as St Johns Ambulance personnel or Police. These are identified in Attachment B, but are not included in the figures shown in table 5.4.

Finally, table 5.4 identifies the number of Seniors Cards for each population centre. Holders of these cards are eligible for special discount travel under rules set by each operators. Discount travel is different to “concessional” travel and does not attract specific Government subsidies<sup>12</sup>.

**TABLE 5.4 THE POPULATION OF POTENTIAL CONCESSION PASSENGERS**

	Hobart (1)	Launceston	Burnie (2)
<b>Total persons</b>	<b>146,920</b>	<b>71,641</b>	<b>35,920</b>
<b>Concession Group A</b>			
<b>Pensioners</b>	26,487	14,043	11,179
<b>Health Care Cards (LI, WA, NS, YA)</b>	na	na	na
<b>Sub-Total Group A</b>	<b>na</b>	<b>na</b>	<b>na</b>
<b>Concession Group B</b>			
<b>Other Health Care Cards</b>	na	na	na
<b>Veterans Affairs</b>	4,588	2,257	1,313
<b>Sub-Total Group B</b>	<b>na</b>	<b>na</b>	<b>na</b>
<b>Total Groups A + B</b>	<b>47,426</b>	<b>24,969</b>	<b>18,801</b>
<b>Total as % of Popn.</b>	32.3%	34.9%	52.3%
<b>Discount Group</b>			
<b>Seniors Card</b>	2,215	746	499

Notes: 1. Hobart excludes Kingston and Blackmans Bay.

2. Burnie includes Wynyard and Ulverstone.

*Note: data is being obtained from Centrelink on the breakdown of health care card numbers. Provisional estimates indicate that the ratio of the population in groups A and B is about 2:1. This means that the proportion of the population that is eligible for concessional travel on Metro is about 50% more than is eligible for concessional travel on regional and rural route services.*

<sup>12</sup> It is recognized that a special day-ticket is available for Senior Card holders under the Metro fares structure. However, Senior Card holders are not entitled to any concession for single trips.

Attachment B provides a more complete description of the differences in qualifications for concessional or free travel with Metro by comparison to Hobart Coaches (as an example of rural or regional fare paying route services). There would appear to be a case for increased consistency in qualifications for concessional travel as well as the level of concession.

## 5.5 The New Ticketing System

Metro currently operates 2 separate ticketing systems:

- Metro Hobart and Launceston use the Crouzet magnetic striped card ticketing system;
- Metro Burnie uses a Wayfarer 3 magnetic striped card ticketing system.

There are 201 Metro buses.

Metro's subsidiary Hobart Coaches operates with the AES 2100 ticketing system, although most Hobart Coaches vehicles are also fitted with Metrofare ticketing equipment to enable the buses to operate Metro services under contract. There are 12 Hobart Coaches vehicles.

It is intended that both Metro and Hobart Coaches will use the replacement ticketing system.

The Crouzet system was purchased in 1987 and, although it currently appears capable of lasting for a number of years<sup>13</sup>, Metro is proposing to replace the system within the next 2 years. There are considered to be significant advantages in introducing a new ticketing system sooner rather than later so as to gain a range of operational, planning and marketing benefits. There are also a number of risks associated with maintaining reliance on a ticketing system that, although it has proved to be very effective, is operating beyond its originally intended working life.

Current best practice is for the introduction of smart-card based electronic ticketing systems, linked with GPS. However, there are a number of problems associated with the introduction of a smart-card based system that need to be resolved before Metro can be satisfied that a new system will provide an all-round improvement for users and operators alike.

The biggest area of difficulty lies with the ability of a smart-card based system to handle on-board cash sales of tickets and the transfers associated with such ticket sales. At present 56% of boardings are associated with the sale of a cash ticket or the transfers associated with such sales (refer Table 5.3). Whilst it is likely that some of these transactions will in future be handled via smart-cards using the e-purse to purchase travel rather than paying cash, there will remain a substantial number of boardings where low-value cash sales or transfers arising from such sales will have to be handled. All available evidence indicates that on-board cash sales will remain a preferred choice of ticket payment for a significant proportion of Metro's clientele. Metro does not want to impose on its customers a system that limits their choice in this regard.

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<sup>13</sup> The Passenger Transport Board in South Australia also operates a Crouzet system. It currently estimates that there are no foreseeable problems for maintaining their system for the next 4-5 years.

Metro does not want to introduce a system that requires a change in the current fare structure and transfer rules. To do so will lead to customer resistance to the introduction of the new ticketing system, as well as confusion the extent of which will depend upon the extent of the changes required. This could result in a significant loss of patronage.

Whilst the new ticketing system offers the potential for much greater flexibility and the progressive improvement of the ticketing system, experience has shown that change works best where increased choice is provided and then the “less desired” ticket products are removed at a later date once the market has accepted the new options. As such the new system must be capable of replicating the existing fare structure and transfer rules (as outlined in section 5.1).

Two main options are available for handling on-board cash sales with smart-card systems; paper tickets or magnetic card tickets. Metro’s conclusion is that a magnetic card system similar to the current Crouzet and Wayfarer systems will be required to support the smart-card system; a paper ticket back-up system is inappropriate for the scale of transactions envisaged.

At this point in time Metro’s Corporate Plan has allocated \$1.2M to be spent between 2002/3 and 2004/5 to introduce a new electronic ticketing system.

Metro is committed through its contract to consult with the Department in the finalisation of its specification to ensure that Departmental requirements are incorporated. The Department are committed via the CSA Agreement to pay the additional costs associated with meeting such requirements.

## **5.6 Revenue And Patronage Implications Of Changes.**

Under the structure that has been established for the delivery of Metro services it is essential that where fare policy changes are introduced that will have an impact on either Metro’s costs (through changing patterns or levels of demand) or Metro’s revenues (through either a reduction or increase in aggregate fares revenues) that an assessment is made of the revenue and cost implications of those changes. In light of this information a decision can be taken by considering the overall costs and benefits of the fare policy change taking into account Government objectives for their support of public transport. In light of such a decision appropriate amendments can then be made to the CSA Payment in light of anticipated revenue and cost impacts.

In the case of fares policy changes designed to encourage travel by particular sectors of the community the amendment made to CSA Payments would need to take into account any incentive structure inherent within (or inserted into) the CSA Agreement to encourage Metro to serve those passengers. At the present time the level of incentive is limited to the fares generated from passengers, and with fare revenues amounting to only 25% of revenues (on average) this may well not be enough to cover the marginal costs associated with the change (particularly if this involves a fare reduction for established passengers as well).

As part of the last two fare increases the Government decided to hold Metro student fares at the July 1996 levels. Metro was compensated through CSA Payment adjustments for the July 2000 decision and negotiations are currently underway to resolve the compensation associated with the September 2002 decision.



Any fares policy change recommendations arising out of the current GPOC review need to be properly assessed and estimates developed which are considered reasonable by both parties to the CSA Agreement before the terms of the Agreement are altered by variations to Schedule 3 of the Agreement. A mechanism is also required to ensure that whilst a provisional adjustment to the CSA payment may be made on the basis of the preliminary assessment, a final adjustment can be made on the basis of real data after say 6 or 12 months.

The sharing of revenue risk between the parties as a consequence of any fares policy change is an important issue. Metro cannot be expected to expose itself to additional revenue risk in an environment where it is funded on a break-even basis. If Government wants Metro to accept at least some of the revenue risk associated with changed fares policies (particularly if those changes are significant) then it is essential to move away from break-even funding to a proper commercial funding arrangement.

## 6 EFFICIENCY OF METRO OPERATIONS

### 6.1 Historical Overview

Metro has previously provided the Commission with detailed information regarding the efficiency of its operations. The Commission is referred to this information for detailed historical information.

In its 2000 review the Commission found that Metro was the most efficient public sector bus operator in Australia and that its cost structures made it comparable with a number of private sector operators on the mainland (although its costs were higher than the private sector average).

Metro has again engaged the services of independent consultants to analyse Metro's costs, develop benchmarks of efficient costs taking into account external factors affecting Metro's cost structures, and make comparisons with the costs of a broad cross-section of other metropolitan bus operations. The results of this consultants study will be made available to the Commission once they are available.

Table 4.1 provides some summary information on the overall efficiency of Metro in terms of total operating expenditure per bus kilometre. In dollar terms this has fallen from \$3.01 in 1989/90 to \$2.73 in 2001/02. However, when this is calculated in real terms the reduction is far more dramatic with a reduction from \$3.01 to \$2.03 using the CPI<sup>14</sup> as the inflation deflator, or to \$1.99 using the School Bus Index (again adjusted for the New tax System) as the inflation deflator. This amounts to a 34% reduction over the 13 year period.

This is a substantial achievement.

In its 2000 Review the Commission concluded that Metro could become about 9% "more efficient" if Metro's service contract was competitively tendered and, through that process, the award applicable to private bus operators in Tasmania could be extended to Metro's operations.

In November 2000 the Federal Court of Australia made a determination regarding in the case between the *Australian Rail Tram & Bus Industry Union v Torrens Transit Services Pty Ltd* that clarifies the ability of employment conditions to be modified through the competitive tendering of public transport services. The Federal Court found that the *Workplace Relations Act 1996* (S149 for awards and S170MB for certified agreements) applied to the transfer of business through a competitive tender of public transport services by the South Australian Passenger Transport Board. The net effect of this decision means that whilst the new employer is bound by historical employment conditions unless there is an agreement reached with the employees concerned to modify those conditions.

As such any downward change in employment conditions is likely to require the negotiation of appropriate compensation, the costs of which would become an offset against expected operational efficiencies.

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<sup>14</sup> Adjusted for the effects of the New Tax System, the most significant of which has been the introduction of the Commonwealth DAFG scheme.



## **7 INFRASTRUCTURE AND OTHER “NON-SERVICE” COSTS**

Metro’s prime function is the provision of bus services. In conjunction with this prime function Metro carries out a number of tasks, which lead to significant non-service costs.

### **7.1 Infrastructure**

In an urban setting, it is difficult for public transport to be provided without some specific infrastructure to assist in its provision, from the viewpoint of passengers, bus operators and other road users. Other than the roads themselves, infrastructure for public transport can be roughly broken into vehicle facilities and passenger facilities.

#### **7.1.1 Vehicle Facilities**

For the smooth and safe operation of bus services together with all road users, the main facility required is bus stops. Most urban carriageways have sufficient paved width to accommodate safe bus stops, and Metro works with local government authorities and the Department to ensure that bus stops are appropriately located in terms of passengers’ needs and the safety of all road users.

Where the paved carriageway is narrower consideration often needs to be given to the provision of a bus layby, enabling buses to pull off the traveling lanes. Laybys can incur significant capital costs for the road owner, either a local government authority or the State, for which the Department is the relevant body. Expenditure on laybys usually has to be budgeted for and is often included in road upgrading projects.

It is fortunate for bus public transport operators and passengers that in October 2002 the Department agreed to accept funding responsibility for the construction of laybys on State roads where the bus operator has initiated the request for a layby. Prior to this change in policy, the Department insisted that if a requested layby was not part of a general road improvement project, then the bus operator would have to construct and pay for this infrastructure.

Other bus specific vehicle facilities such as extensive bus-only lanes or separate bus roads (like Adelaide’s O-bahn or Brisbane’s bus-way) are unlikely to be feasible in cities the size of Hobart, Launceston and Burnie. However, there will be a place for localized facilities such as contra-flow lanes to provide access for buses against the normal traffic flow in a one-way system, or short section bus lanes such as the southern end of Main Road in Glenorchy town centre. There will also be a place for changes to minor infrastructure such as traffic lights to allow for smoother entry into and egress from bus stations without any significant disruption to pedestrians or other vehicles.

Responsibility for such facilities is normally shared between the relevant local council and the Department.

Public transport has to compete with other road users in the allocation of valuable road space or kerbside parking space to the development of facilities designed to assist public transport.

### **7.1.2 Passenger Facilities**

Infrastructure for passengers can vary in size from a bus stop blade (sign) to a bus station or transit centre, with bus shelters in between.

Metro handles the minimum facilities itself, including blade and, if necessary, pole, timetable and road markings. Metro liaises with the road reservation owner and adjacent property owners as to stop location when required. National Road Rule requirements may in future cause the road owners (local councils or the Department) to erect bus stop markers as for currently marked parking zones, that is, at either end of the bus stops.

Arrangements for the installation of new bus shelters vary from one local government authority to the next, and funding for shelters on State roads largely depends on whether there is a road upgrade project or not. For local councils the variables for new shelters are the requirement for a development application or not, payment of applicable fees or not and funding for the shelter's concrete slab. Metro provides the shelter and occasionally a third party, for example, a school or community service organisation, contributes to its costs. Metro invariably looks after the bus shelter's subsequent maintenance, including anti graffiti paint if necessary.

The funding for major facilities such the bus shelters at Franklin Square, Hobart, the Launceston Transit Centre and bus stations is arranged between Metro and the other concerned bodies, typically local government authorities, higher levels of government and private enterprise. Thus, these funding arrangement can vary greatly, from Metro making a significant contribution to the shelters at Franklin Square and the upgrading of lighting at Glenorchy Bus Station, to Metro assisting with the recurrent funding for the Launceston Transit Centre due to its use of the facility. In the latter case Metro's Community Service Activity Agreement was amended to accommodate the extra expenditure Metro incurred to provide bus services via the Transit Centre.

### **7.1.3 In Summary**

Metro's prime function is the provision of bus services.

In conjunction with this function, Metro incurs considerable expenditure on various forms of passenger infrastructure, particularly shelters and stations. These facilities are used by other bus operators' passengers and by the community at large for purposes other than those related to public transport. Thus, Metro does not reap the full benefits of its expenditure on what are essentially community goods.

In view of the public nature of some of the on road infrastructure to which Metro financially contributes, and the ownership of the land on which these facilities sit, it would be more appropriate for local government authorities and / or the Department to be responsible for their funding and maintenance.

Metro's responsibilities under the CSA Agreement are fairly limited in this area.

## **7.2 Passenger And Driver Security**

Metro has a strong commitment to providing a safe public transport network for passengers, the public at large, and employees. This is confirmed by written commitment in the Metro Customer Service Charter.

### **7.2.1 On-Board Security**

This is achieved by not only regular maintenance and inspection of the vehicle fleet but through the use of contracted private security personnel, and the Police to provide on board safety for passengers and drivers.

Security guards are rostered in Hobart on Monday to Saturday on services in the evenings until the last bus and to monitor bus stations.

Additionally, the three bus stations in Hobart are monitored for three hours after schools finish each day.

Random inspection of route service buses is undertaken in evenings by mobile security firms to reassure passengers and drivers of Metro's commitment to provide a secure/safe service.

These actions have reduced the level of violence and other problems on buses and at bus stations.

In Launceston private security guards monitor late night services from the city to Rocherlea and return each Thursday, Friday and Saturday.

All evening service buses are fitted with video recording surveillance cameras. This provides evidence of on-bus incidents enabling apprehension and charging of offenders. Notices are prominently placed on buses fitted with cameras to notifying passengers of the presence of the equipment. The notices and cameras act as a deterrent to anti-social behaviour.

All buses are fitted with security film on the driver's side window and front door glasses to provide some protection against missile (rocks, stubbies) intrusion.

Twenty-eight buses in Hobart have laminated glass or safety glass with security film on all passenger saloon windows, for use on evening services.

### **7.2.2 Fear Of Crime Strategies**

Metro participated in the Crime Prevention and Community Safety Council working group looking at 'fear of crime' issues associated with the use of Hobart's main bus interchanges.

Measures were identified that would potentially increase the number of people reported as 'feeling safe about using public transport' from 53% now to the Tasmania Together target of 85% in 2020. Metro has identified, in surveys, that it is important to consider the safety perceptions of people making the decision to use public transport.

In conjunction with local government it is intended to consider implementation of a range of measures such as improved lighting, increased police visibility, opening up

bus malls to other traffic after hours, maximising the direct servicing of schools where feasible and the location of taxi-ranks in bus malls after hours.

### **7.2.3 Enforcement**

Under the *Metropolitan Transport Act* Metro had a range of powers to undertake enforcement on its buses. Those powers were abolished by the State Government and no adequate replacement powers have been provided. Metro, like other bus operators, now has to rely on potential court action or Police action to provide enforcement of the provisions of the *Passenger Transport Act*. Metro is looking to the Department to introduce an effective on-the-spot infringements notice system that can be administered by suitably authorized Metro officers and the Police.

Metro currently expends about \$150,000 a year on engaging the services of private security firms to provide a limited range of security services in bus malls and on vehicles.

The Police have responsibilities and obligations to maintain public law and order in all public places including on public transport, in bus interchanges and at bus stops.

Metro works closely with the Police to maintain the most effective security arrangements feasible for public transport, within the constraints of available resources.

Metro is currently working with the Police to trial the replacement of private security resources for on-vehicle security in return for transferring the associated budget outlays to Police for their use. This arrangement should improve the effectiveness of current security arrangements.

### **7.3 Promotion Of Public Transport – A Shared Responsibility.**

The promotion of the use of public transport through the development of appropriate policies that support public transport, as well as through incentive mechanisms and the more normal methods of promotion such as advertising, are a shared responsibility. Whilst the bus operator clearly has an interest and a role to play, by far the most significant roles need to be played by Governments – Local, State and Commonwealth.

With commitments by Governments to greenhouse and other environmental objectives, as well as public health, urban design and quality of life issues there is a need for this to be reflected in coordinated actions and policies designed to support alternatives to the growing use of private cars for travel.

After all the State Government invests significant sums in supporting public transport operationally, whilst both state and local governments spend possibly even greater resources in providing and maintaining the infrastructure that flows from a growing dependency on car use.

The promotion of public transport in this way can include a range of things such as:

- Employees being provided with public transport travel passes instead of free parking or vehicles as part of salary packages, and the States pursuing changes to Commonwealth taxation laws to redress the preference that currently exists towards the provision of cars in this regard;
- The promotion and funding of “travel smart” programs;
- The introduction of incentive mechanisms and funding support to encourage bus operators to provide new and accessible vehicles;
- The introduction and promotion of the national road rule requiring cars to give way to buses when departing from bus stops, provided this is done safely
- The funding and promotion of “innovations” or new technologies
- Sharing revenue risks for a period for trial services.
- Undertaking basic research, holding seminars and discussion forums.

There are many areas where the promotion of public transport can be made more effective if it is pursued in an integrated and coordinated fashion.

There are naturally costs associated with such promotional effort. Metro believes that expenditure by Governments in this area should be seen as a long-term investment.

Metro has limited resources available for promotion of its own services, and already works with others to pursue the broader promotion of public transport where this is feasible Metro believes that more could be achieved through improved coordination as well increased resources in this area. However, this is not a role for Metro.

#### **7.4 Passenger Information Services**

Metro has several approaches to the dissemination of service information to passengers and potential passengers.

The most noticeable are the on-route timetables which although not at every bus stop. Extensive information is displayed in all bus stations.

All major boarding stops and bus termini have relevant information.

Areas with high intensity services e.g. Sandy Bay Rd/Churchill Ave, Elizabeth St/Main Rd, Clarence St in Hobart and Invermay Rd in Launceston have a higher proportion of bus stops equipped with timetables.

In Hobart the Metro Shop located inside the G.P.O. sells pre-paid tickets, provides timetables and service information to both regular users and a significant number of visitors.

The Metro Hotline – 13 2201 – is used primarily for timetable enquiries, during the last financial year over 86,000 callers were assisted.

Metro’s website at [www.metrotas.com.au](http://www.metrotas.com.au) contains comprehensive information about Metro and its services, during the last financial year there was an average of 2,050 ‘hits’ per day.

Metro's timetables are published in two formats for public distribution, for each region Hobart, Launceston and Burnie there are timetable books. The books are sold through over 100 agents who also sell pre-paid tickets. In addition timetables are produced in loose-leaf format on a suburb basis, these are available free of charge through Metro's offices and the Metro Shop. Teagues Tobacconist in Launceston have assumed much of the role of a Metro shop in Launceston. Through an arrangement with Tigerline Metro pre-paid tickets and timetables are available at the new Transit Centre at Cornwall Sq in Launceston.

All drivers are supplied with copies of the timetable book for their city and they also have access to the two-way radio system to assist with passenger enquiries, they also have considerable knowledge of their city and Metro's services.

Metro conducts a regular series of customer satisfaction surveys; the results of these surveys are advertised in the daily newspapers.

## **7.5 GPOC Investigation Costs**

Undertaking GPOC investigations have costs associated with them.

There are Metro's costs in preparing submissions including consultancies associated with the preparation of the submission. There are also GPOC's costs in undertaking the submission.

Under current arrangements GPOC's costs may be recovered from the monopoly service provider under investigation.

Metro considers that it is unreasonable for Metro to have to pay GPOC's investigation costs as has been the case for the last two reviews. Metro's CSA Payment has not been adjusted to accommodate this additional cost, and as indicated elsewhere in this submission, Metro is funded on a break-even basis.

If Metro continues to be funded on a break-even basis GPOC's investigation costs should be recovered from Government, not from Metro.

## 8 EFFECTIVENESS OF METRO SERVICES

### 8.1 Effectiveness In Service Delivery

The Terms of reference require GPOC to report on Metro's effectiveness, as well as its efficiency, in service delivery.

In order for "effectiveness" to be assessed and reported on there is a need for clarity as to what it is that Government is seeking to achieve from the purchasing of urban public transport services from Metro through the CSA Agreement.

Attachment A1 has been provided as the basis of defining "effectiveness"<sup>15</sup> for the purpose of the Review.

This indicates that the following three elements are considered important for effective service delivery:

- Providing services that are well suited to meeting the travel needs of the main client groups:
  - Students traveling to and from school;
  - Commuters traveling to and from main employment centres ; and
  - General mobility for those without access to private travel means.
- Focussing on customers and quality in service delivery; and
- Providing services as part of an integrated whole – linking with other bus operators and taxis where appropriate.

Effectiveness will be considered in more detail below in two ways. First of all consideration will be given to the use of Performance Indicators to measure effectiveness and present this information in a time series form to see how effectiveness is developing through time. Secondly there will be general discussion about the things that Metro has done, and what Metro proposes to do, in order to make itself more effective against these criteria.

Section 8.2 provides a general discussion about Key Performance indicators as well as information about indicators of:

- How well Metro services meet the travel needs of client groups; and
- Customer service and quality in service delivery.

The process by which Metro modifies its services to keep them in-tune with the needs of passengers is outlined in section 8.3 below. The range of initiatives Metro has put in place over recent years to better meet the needs of our customers, within our available resource constraints, are summarised in section 8.4. Section 8.5 specifically addresses recent initiatives associated with the introduction of an accessible services timetable for Hobart, and plans for further developments in this

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<sup>15</sup> One element of effectiveness will be the efficiency with which services are delivered, as this will mean that more services can be delivered for the same money, or that Government will have more money available to undertake other programs such as education and health. For the purposes of this submission *Effectiveness* is being addressed in terms of matters other than *Efficiency*.



area. In section 8.6 there is general discussion of other initiatives that are planned for the future to continue to improve the effectiveness of our services in this regard.

Section 8.7 outlines Metro's approach to being more customer and quality focused, whilst in section 8.8 there is general discussion of how Metro is working to improve the delivery of a more integrated public transport system for the traveling public.

## **8.2 Key Performance Indicators**

### **8.2.1 General Discussion Of KPIs**

Key performance indicators (KPI's) are most useful in watching how well aspects of an organisation's activities are going. KPI's can be used to set off warning bells if performance falls below certain levels, indicating that policy or other changes are necessary. Similarly, KPI's can be used to see how well an organisation is going in meeting specific targets.

In order to perform a short term and regular monitoring role, KPI's should be figures compiled from readily available statistics held by the organisation. If the ideal KPI to measure some aspect of the organisation is difficult to calculate, it's better to use the next best, readily available figure. However, it might be reasonable to go to the extra effort to calculate the best KPI on a from time to time or once off basis.

KPI's that are based on readily available data streams are also likely to be useful in making comparisons with other organisations.

In order to monitor an aspect of an organisation's activities it's best to use more than one key performance indicator. This is due to:

- Since KPI's are usually a figure calculated from two data streams, an individual KPI is subject to the influences on both data streams. Thus, it may be difficult to ascertain the underlying reasons for changes in the organisation from a single KPI without going back to the original data streams, which then defeats the purpose of a key, or summary, performance indicator.
- An aspect of an organisation's activities itself may have several different angles to it, which in turn might warrant KPI's.
- If the ideal KPI is not readily available, the next best KPI becomes better with the support of additional KPI's.

On the other hand, the number of KPI's should be held to a minimum but useful level. Having too many key performance indicators muddles the summary nature of this monitoring tool.

### **8.2.2 First Boardings Per Bus Kilometre**

In relation to meeting the travel needs of clients the ideal measure for Metro would be the number of "bums on seats". This shows how well the public perceives Metro's services and how well this perception is translated into action by the public voting by occupying the seats we provide for them to sit on. The higher the level of occupancy of the seats we provide the better we are doing in matching our services to the community's travel needs.



The most readily available information regarding passenger demand is the number of first boardings, whilst the most readily available information about supply of seats is bus kilometres<sup>16</sup>.

Figure 8.1 shows the trend in first boardings per bus kilometre on a financial year basis back to 1992/93 whilst Figure 8.2 shows this data and on a monthly basis back to November 2000.

In measuring Metro's effectiveness through use of this measure it is important to recognize that there has been a long-term trend decline for patronage and so the correct base line with which to compare Metro's effectiveness is not a horizontal line, but rather the long-term trend for patronage under a "status quo" scenario.

Figures 8.3 and 8.4 supplement this data using rolling twelve month totals since June 2001 for the state as a whole and for each of the three centers.

In its report for Metro "Appraisal of Patronage Trends and Prospects" (May 2000) consultants Booz, Allen and Hamilton compared patronage trends of Metro's three operating centres with other medium sized Australian cities (Perth, Adelaide, Brisbane, Canberra, Newcastle, Darwin) over the period 1984/85 to 1998/99. The comparisons are made on the basis of public transport trips per head of the catchment population, recognizing that these cities have differing mixtures of public transport modes (bus, train, tram and ferry). This information is illustrated in figure 8.5.

This analysis helps illustrate that not only is there a consistent long-term trend decline in public transport use for all population centres, but that the level of public transport use varies significantly between centres for a variety of reasons.

Figures 8.5 and 3.1 help illustrate that the size of the urban centre is a significant factor in the propensity of the local population to use public transport.

As such any assessment of Metro's performance using a performance indicator such as first boardings per bus kilometre needs to take into account the facts that:

- There is an underlying long-term trend decline in public transport use;
- There are significant differences between population centres due to population levels and a variety of other factors; and
- There are often very localized influences that lead to short-term changes that are largely beyond Metro's control.

Thus in looking at either time series or cross-sectional information it is important to distinguish between information that describes the performance of Metro as compared to information that simply describes exogenous influences which are beyond Metro's control. A performance indicator needs to focus on performance and hence on matters under the control of the organization being assessed.

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<sup>16</sup> The use of bus kilometres as a proxy for seat-kilometres has two problems. First there are variations in the seating capacity of buses. This is quite reasonably approximated by the simpler figure of bus-kilometres in that passengers are more concerned about the basic availability of the service (provided the bus is big enough to allow all intending passengers to board). The second issue is that in-service kilometres is more appropriate than total kilometres, due to the fact that through time Metro can become better at delivering the same timetable of services through reductions in the direct kilometres (ie kilometres the buses are not "in-service"). Unfortunately obtaining in-service kilometres on a regular basis is a much more difficult process than using just bus-kilometres. The measure should thus be complemented by periodic analysis of the ratio of in-service kilometres to direct kilometres.

In the BAH study the consultants found that Metro's operating centres had annual rates of patronage decline (measured as public transport trips per capita) of between about two and three percent (Hobart 3.1%, Launceston 2.8%, Burnie 2.1%). For the other Australian cities the annual rates of decline were between 1.2% and 3.2%. Booz, Allen and Hamilton found that Metro's underlying patronage trends were not significantly different from the trends of the other Australian cities studied.

In looking at cross-sectional trends in public transport trips per capita the consultants found that patronage per capita for Hobart and Launceston fell below the expected level for cities of their size whilst Burnie performed somewhat better (refer figure 3.1). Booz, Allen and Hamilton concluded.... "it is unclear whether these results reflect the effectiveness of service delivery or (more likely) other features of the areas."

### **8.2.3 Complaints Per Million First Boardings**

In relation to customer focus and quality of service delivery there are two options available.

The first is to look at passenger complaints related to the number of passengers (such as the number of complaints per million first boardings).

Alternatively use can be made of Metro's Customer Service Charter and the regular independent customer satisfaction surveys that have been undertaken to measure our performance against our charter.

Figure 7.7 shows the number of complaints per million first boardings.

Data has only been collected in this format<sup>17</sup> for a limited period of time.

### **8.2.4 Performance Against Customer Service Charter**

The Customer Service Charter is a critical document for Metro which underpins its the attainment of the Corporate Plan Goal to – *improve the reliability, safety and quality of services to customers*.

Metro developed its first Customer Service Charter in July 1997. This has been subsequently reviewed and revised. The Charter will continue to be subject to periodic review, with the next review due in 2003.

The Charter requires Metro to work towards the achievement of the following standards of service.

- 98% of buses will depart and arrive no more than three (3) minutes after the time specified on timetables.
- No bus will depart ahead of the scheduled time.
- All buses will travel on the scheduled route and stop, when timetabled to do so, at all stops where there are passengers waiting and hailing.

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<sup>17</sup> Metro investigates all complaints it receives. Those that can be substantiated through investigation have been termed "recorded" in that after an investigation the record of the complaint is recorded on a personal file. Those complaints that are not recorded on a personal file are termed "not recorded". Reported statistics historically focused on just "recorded" complaints. Information on total complaints is now reported.

- Metro will always provide all the information it has and explain why services have not run as timetabled.
- Metro will provide whatever assistance it can to customers affected service disruptions.
- All buses will be cleaned daily.
- All buses will have clear and accurate destinations and route numbers.
- All Metro staff will be helpful, friendly and pleasant to customers.
- Information about services, fares and timetables will be readily available to customers from Metro offices, Metro Shop, at all major bus malls.
- Timetables and fare information for that route will progressively be provided at each bus stop.
- All drivers will have information about services, fares and timetables, or means of obtaining that information, for all customers who require it.
- Metro will examine how it can locate its bus stops at or near well-lit areas.
- All bus termini will be lit at night time and all bus stops where a bus shelter exists will be in a well lit area.
- Subject to local council agreements all bus malls will be monitored by video surveillance.
- All bus termini will be equipped with shelters or seats.
- All bus stops, where more than 40 people regularly wait for buses over the course of the travelling day, will be equipped with adequate shelter or seating.
- Full information about the ticketing system and how to use it will be provided at all places where tickets can be purchased.
- Metro staff will provide helpful assistance for customers who are unsure of how the ticketing system works or who have difficulty in using it.
- Metro will listen to, consider and respond within 10 working days, to all comments, suggestions and complaints from its customers.

Metro's performance against these criteria is measured by engaging an independent market research company to undertake regular surveys (currently four times a year). Originally these surveys were undertaken using trained staff (mystery shoppers) to use Metro's services and provide an independent and consistent ranking of Metro's services against a broad range of criteria. In March 2000 the survey methodology was revised to include a questionnaire of passengers rankings of Metro's performance against these criteria to supplement the feedback from mystery shoppers with the views of our real customers.

Figures 8.7 illustrate some of the information obtained regarding Metro's customer service performance. Generally speaking this illustrates the fact that:

- Metro's performance is of a long-term high standard;
- There is a reasonable degree of variance from survey to survey reflecting the relatively small sample size;

- The change in survey methodology had a significant influence on the rating of the overall level of service from Bus Operators – our customers expect higher standards than the independent survey staff used for rating purposes prior to change in methodology.

One of the more important measures regarding customer satisfaction is considered to be reliability of service (on-time performance), with services running early being much more of a concern than services running a few minutes late.

Metro has set itself very high standards in this regard and has performed reasonably well in meeting them.

Unfortunately it is not possible to assess on-time performance in any reliable way until such time as Metro introduces its new GPS linked ticketing system. This will not only provide a reliable means of monitoring actual performance against the published timetable, but will also provide each vehicle with a synchronised and accurate clock.

The experiences from around the world where such systems have been introduced is that actual performance is lower than had been anticipated once an accurate measurement system is in place.

Even with an accurate measurements system in place for on-time performance there is a need to be able to split responsibility for such performance between matters that are under the bus operators control, and those matters that are not (such as traffic accidents, road works, or traffic congestion).

In addition, there can be significant variability in such factors as general traffic conditions which means that a bus travelling with the traffic stream will take longer in school terms due to slower traffic and more passengers boarding, than in school holidays. This is particularly noticeable in the first week back at school before travel patterns are fully established. To vary public timetables to try and reflect these seasonal variations between school term and school vacation could make life very difficult for those members of the travelling public not travelling to or from school, and could lead them to have less certainty as to what the timetable was on a given day. As with all things, an appropriate balance needs to be struck.

In relation to the safety of public transport the *Tasmania Together* process identified the community “feeling safe using public transport” as a specific measure in achieving “*Goal 2 – Have a community where people feel safe and are safe in all aspects of their lives*”. Surveys conducted by the Australian Bureau of Statistics measured this at 53% currently, and *Tasmania Together* set a target of 85% for this measure by 2020. The Birkett surveys measure this factor as well, but use a sample of passengers as compared to a random sample of the community. The passengers (as expected) rate their feelings of safety using public transport much higher than do the general community.

Metro and the Tasmania Police have already taken steps to recognise the importance of this performance benchmark arising out of the *Tasmania Together* process and are working closely together to improve both the reality and the perception of safety on public transport.

Figure 8.1 Metro First Boardings per Bus Kilometre by Financial Year

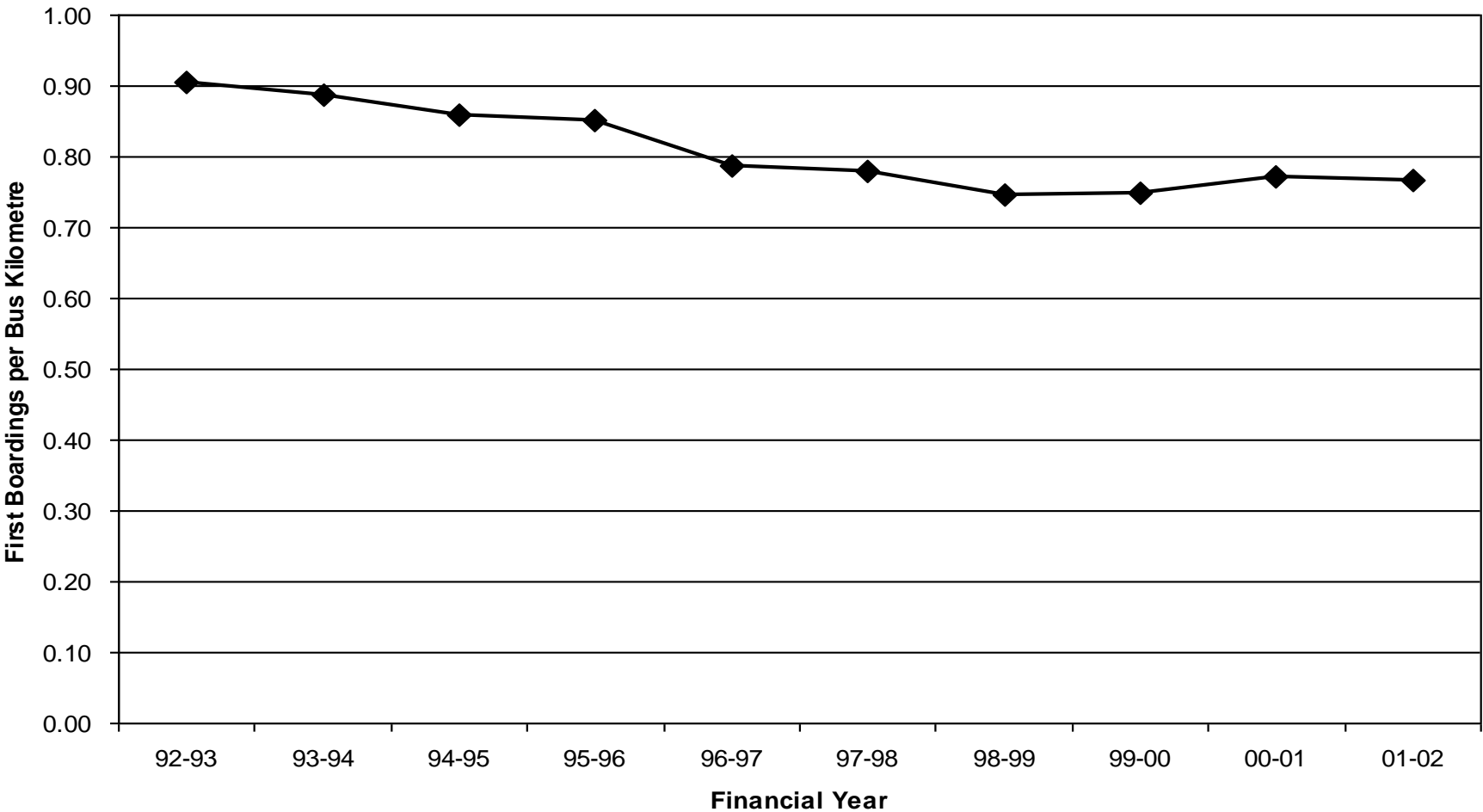


Figure 8.2 Metro First Boardings per Bus Kilometre by Month

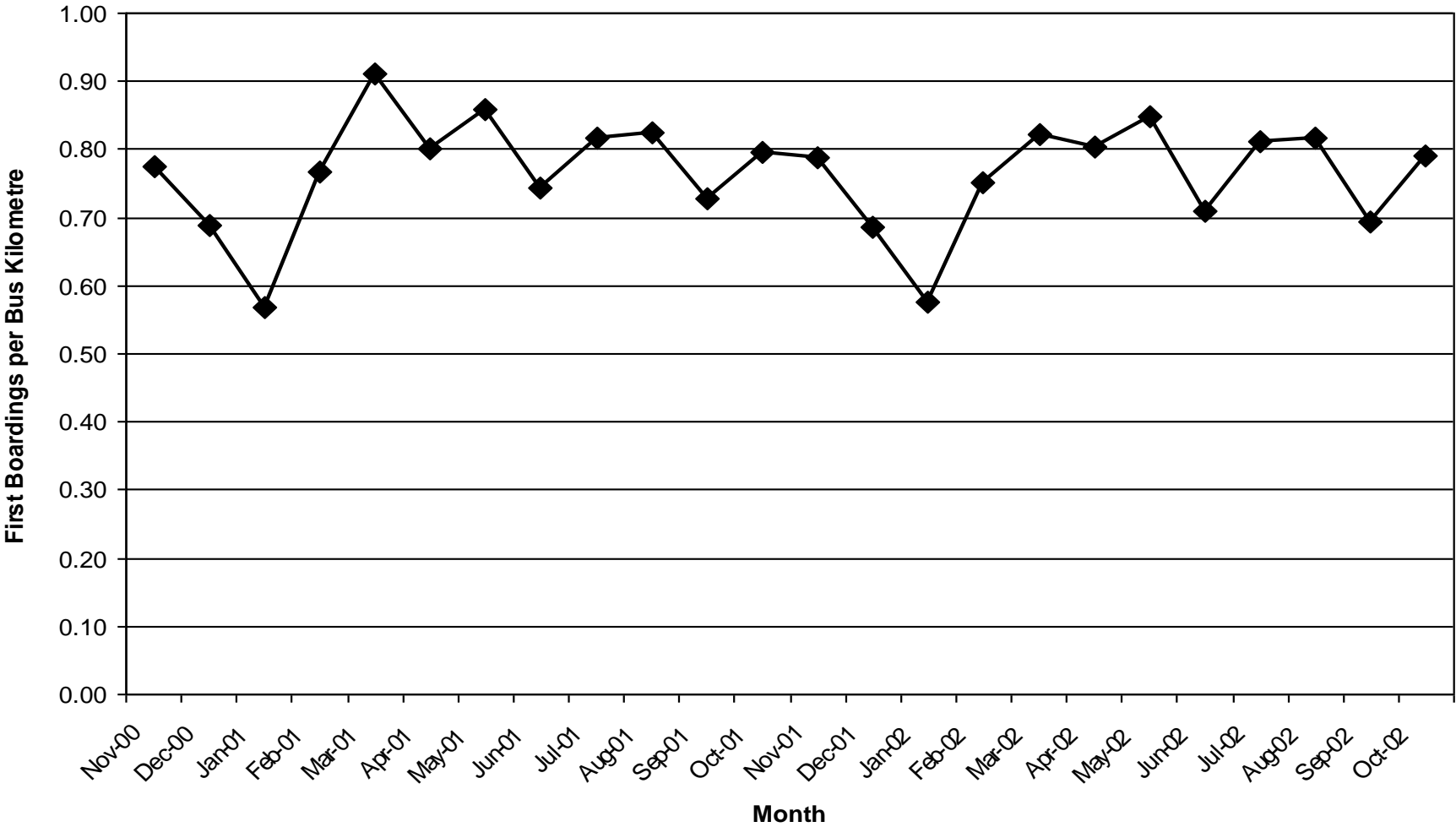
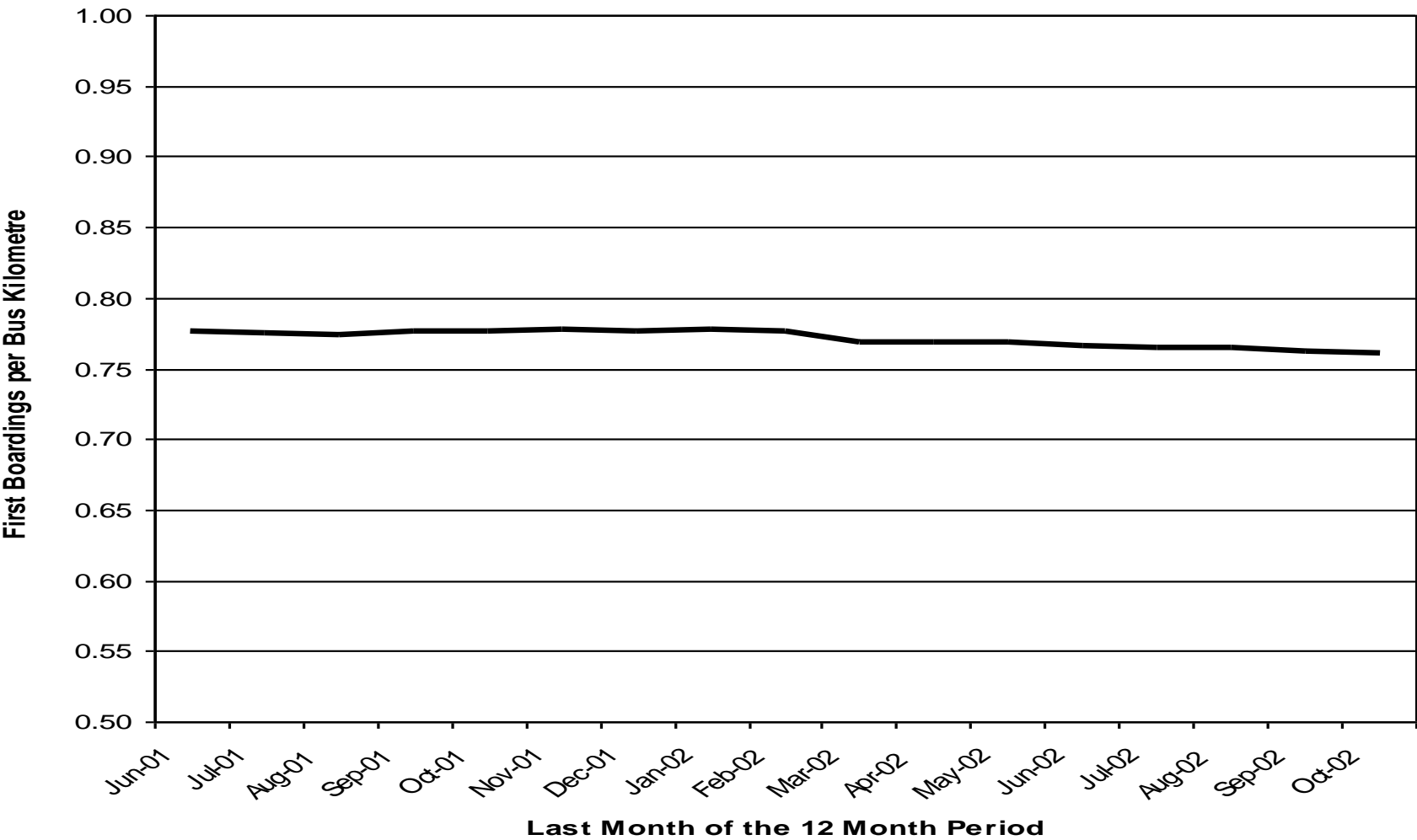


Figure 8.3 Statewide Rolling 12 Month First Boardings per Bus Kilometre



**Figure 8.4: Rolling 12 Month First Boardings per Bus Kilometre by Operating Centre**

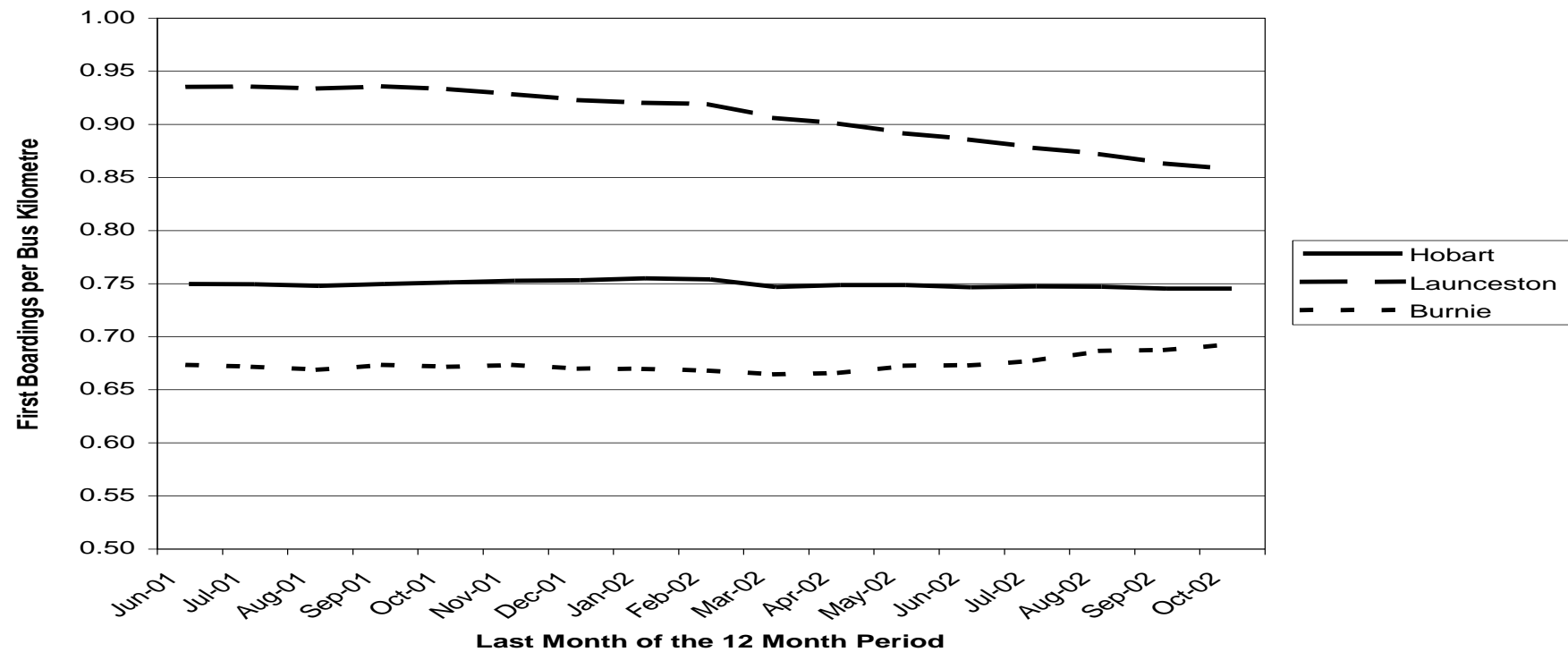




Figure 8.5: Trips/Capita by Centre

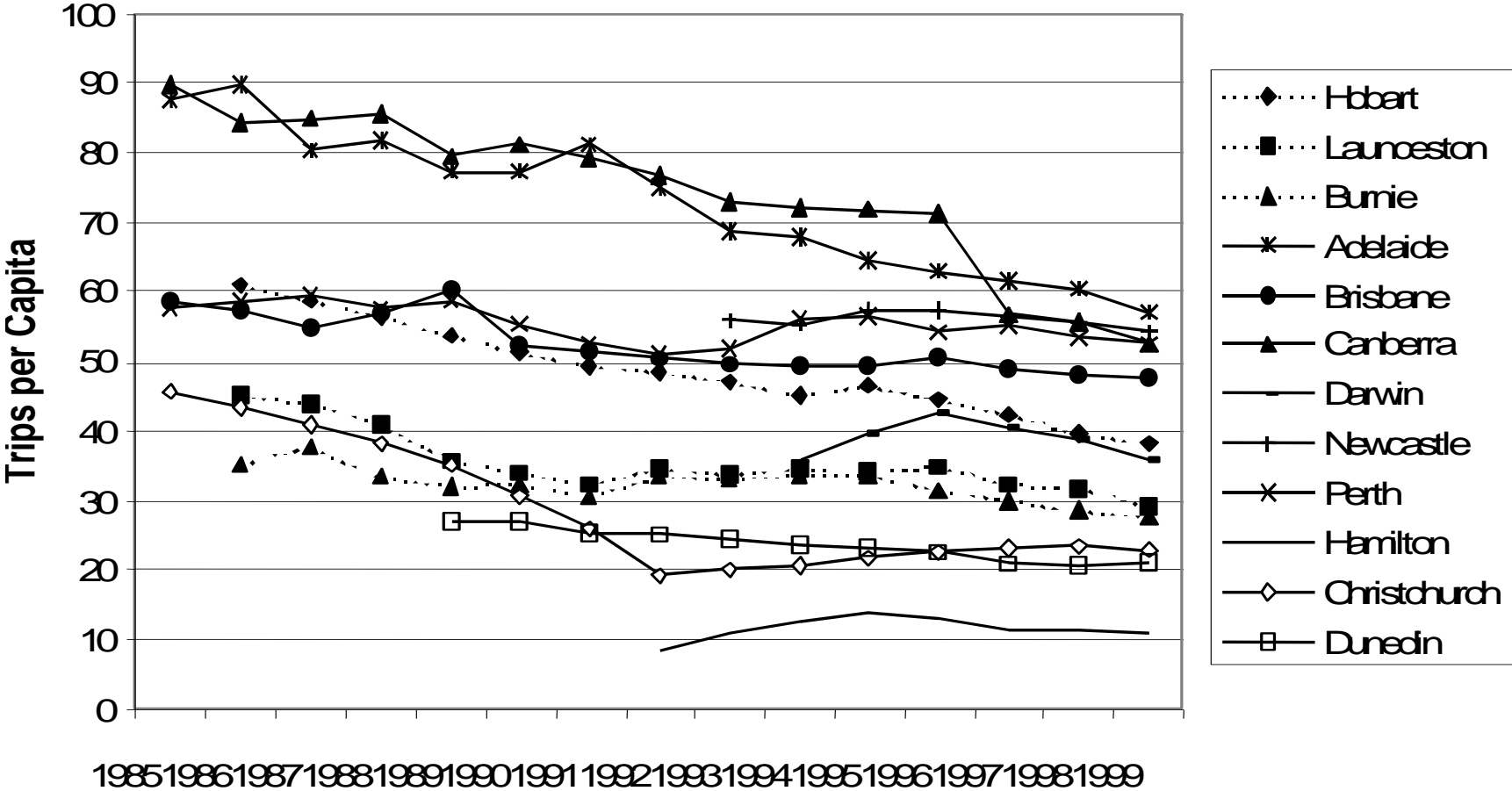


Figure 8.6: Complaints per Million First Boardings by Month

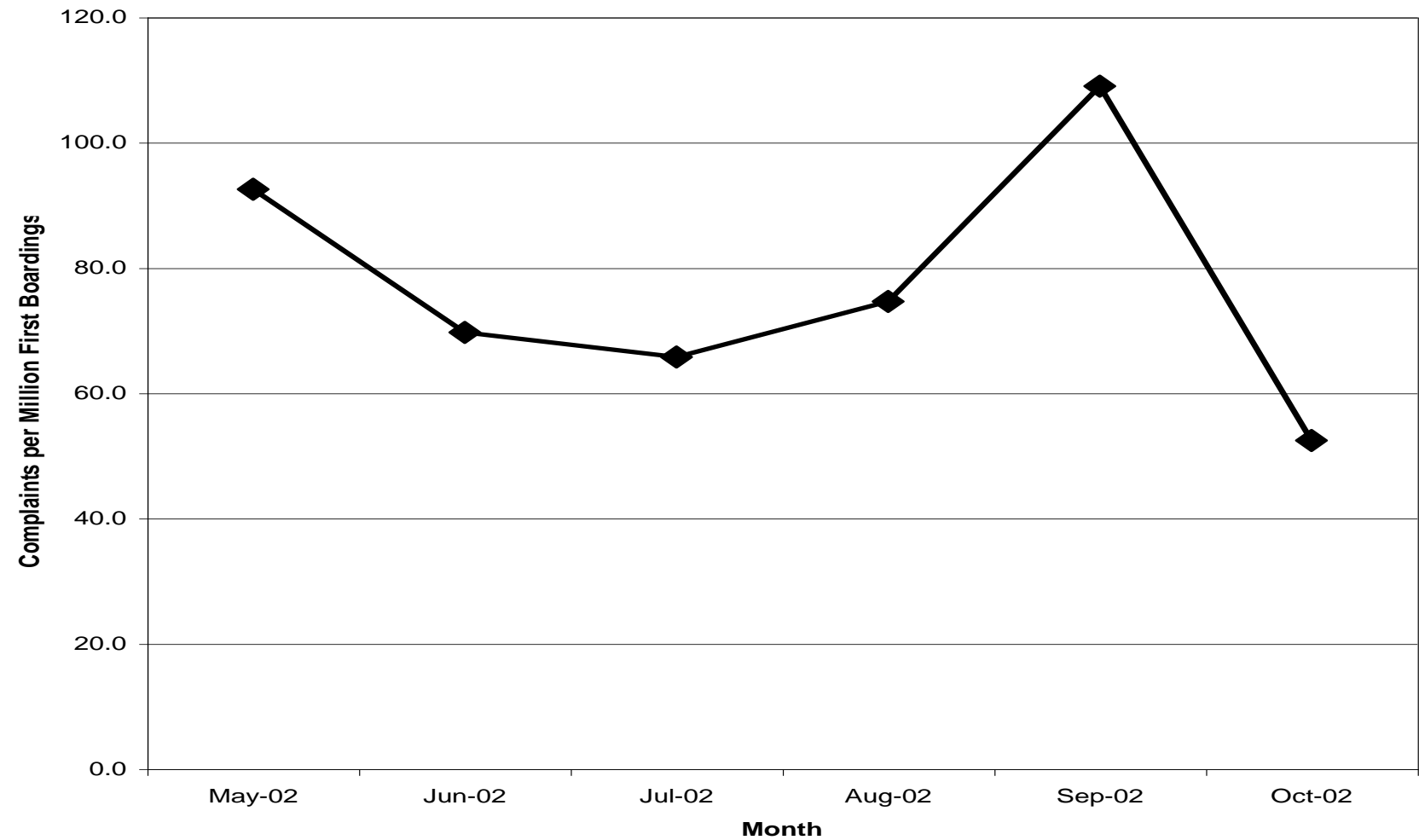
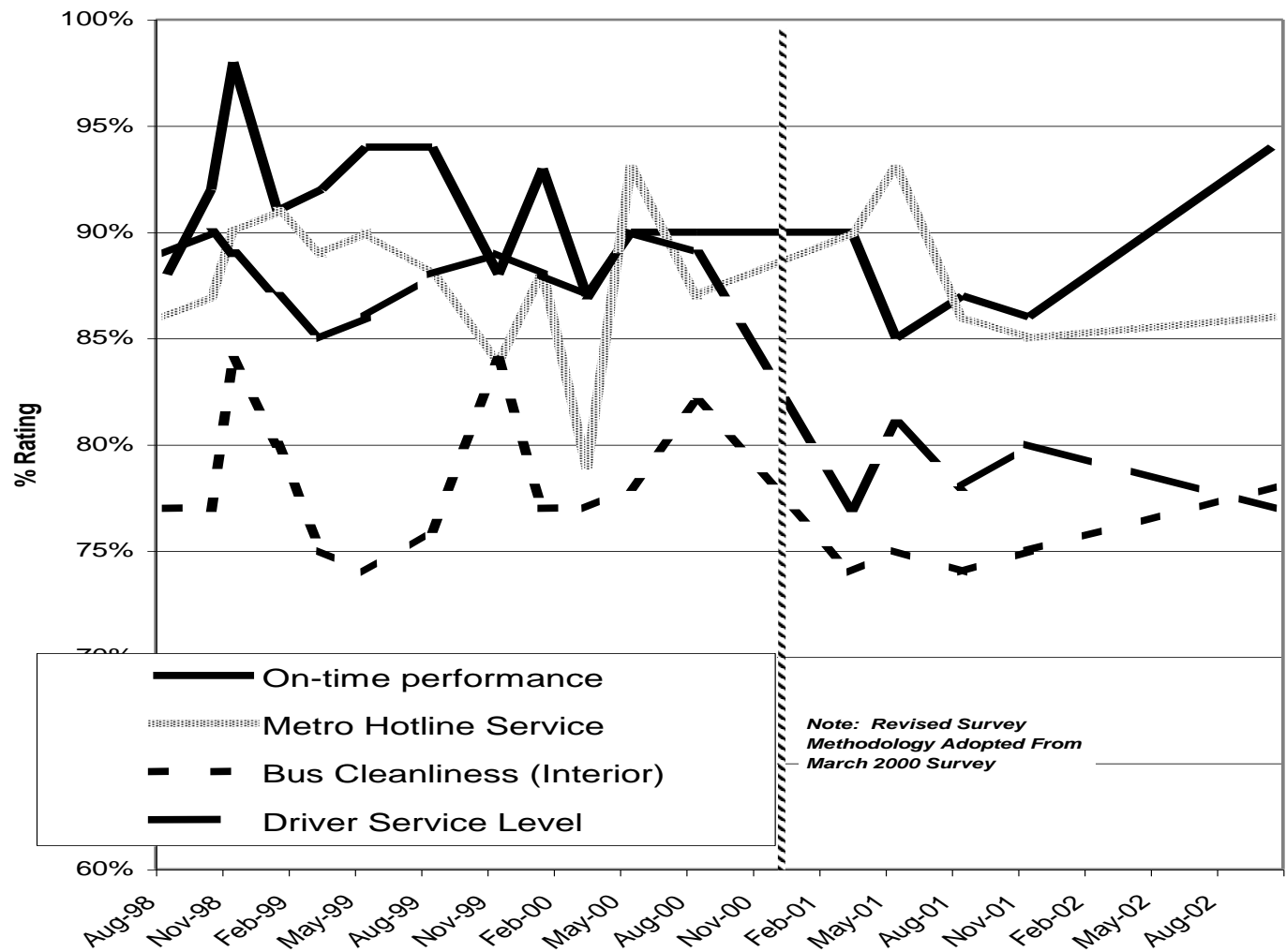


Figure 8.7: Trends In Service Quality KPIs



### 8.3 Metro's Process For Changing Services

As outlined in section 2.3, the bus services that Metro provides are stipulated within the Community Service Activity (CSA) Agreement. This Agreement provides a mechanism for changes to be made to services during the currency of the Agreement in order that services can be continually adjusted to better reflect the community's changing needs. However, the responsibility for doing this is not defined, rather it is simply stated that the changes need to be "agreed between the parties" if they are Major Changes, whilst Metro may make Minor Changes provided that there are no substantial changes to in-service kilometres within each region.

Since the commencement of the CSA Agreement in 1997 there have been no changes to services initiated by the Department<sup>18</sup>; that is to say, all changes to Metro's bus services have been undertaken by Metro, either in response to its own investigations or requests from the public or schools or other bus operators. The Department's role has been one of noting Minor Changes when they occur (as notified by Metro) or reviewing and approving changes submitted by Metro where a change in the CSA Payment is required.

Thus, changes to Metro's bus services largely occur by Metro accepting responsibility for operational planning and responding to events in the community at large. Also, the process these changes go through vary as to whether they relate to timetabled services or dedicated school services, and as to whether they are small or large.

#### 8.3.1 Timetabled Services

As timetabled services are presented in Metro's timetable books for each of the three operating centres Hobart, Launceston and Burnie, changes to these services are best done in conjunction with the issuing of new books. Where this is not feasible, particularly with minor changes, passengers directly affected are notified as much as possible by, for example, driver handouts, phone and letter.

##### 8.3.1.1 Major Changes

Major changes to timetabled services are heavily investigated by Metro and usually involve consultation with local government authorities and community groups. Due to the magnitude of the change, the CSA Agreement usually needs amending in conjunction with Passenger Transport Services after the changes in revenue and expenditure have been estimated.

The inclusion of Ravenswood as an area of Launceston serviced by Metro is a good example of the process for large timetabled service changes. This change was initiated by the Department, as a result of general community pressure and the previous operator wanting to cease operating the service. This led to considerable consultation between Metro, the Department, Launceston City

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<sup>18</sup> Other than the extension of Metro services in Launceston in May 2000 to include Ravenswood.

Council and a local Ravenswood community group. Metro's services were then reorganised to incorporate an expanded service for Ravenswood and infrastructure was upgraded in conjunction with the Launceston City Council. Metro commenced its Ravenswood services in May 2000 and a provisional adjustment made to the CSA Payment. This provisional adjustment was subsequently confirmed on the basis of actual data.

Metro is currently in the process of responding to a request from Government to develop proposals to incorporate Kingston and Blackmans Bay in its Hobart service area, and is working with the Kingborough Council and the Department to move this major service change forward.

#### **8.3.1.2 Minor Changes**

Minor changes to Metro's services usually arise from requests from the public, either directly or through an intermediary, such as a Member of Parliament. Requests that are not feasible in the short term, either due to the nature of the request itself or the constraints of Metro's existing services, are held for further consideration when a general review of the particular area occurs or as some opportunity presents itself.

Requested changes that hold some promise of improving services for some without significantly adversely affecting others are investigated, including estimating net costs and consulting other individuals and organisations. Minor changes especially can involve on-board surveys of the passengers using the service(s) for which a change has been proposed.

If the change has merit, and the cost of the service change is small and can be accommodated within the existing CSA Payment, it is normally implemented by Metro and advised to the Department (ie it is treated as a Minor Change under the Agreement). These changes are automatically endorsed by the Department provided they are satisfied that the contracted level of in-service bus kilometres is maintained and that no existing passengers are substantially worse off under the proposal.

If Metro is not prepared to accommodate the change within the existing CSA Payment then the proposal is submitted to the Department for approval to both the service change and the associated CSA Payment modification.

#### **8.3.2 School Services**

Changes to school services are normally initiated by a school, parents or Metro. Requests from schools can be major, especially if a change in school start or finish times is involved. Parents may find that there's no nearby service for their child's new school and Metro often initiates minor changes to better reflect schools' needs and better utilise Metro's resources.

#### 8.3.2.1 *Major Changes*

A change in school times invariably means a major change to school services. Metro works with the Passenger Transport Services Branch of the Department on this type of change because of the potential for an increase in the payment under the CSA Agreement, and due to the arrangements between Passenger Transport Services and the Education Department for processing this major type of change to school services.

Some school time changes may not require an increased CSA Payment, for example, Mt Carmel in both 2002 and 2003, whilst others have done so, for example, Rosetta High School's once a fortnight earlier finish time commencing 2002. Other types of outcomes are a school not proceeding with a time change after Metro's informing them of substantially increased costs (Clarence High School) or a school not proceeding with a service change if a school time change is necessary in order to keep costs within reasonable bounds (South Arm Primary School).

#### 8.3.2.2 *Minor Changes*

School service changes occur throughout the school year but especially at the beginning when changed enrolments and travel needs manifest themselves on both timetabled and school services.

This type of service change is the easiest to implement due to:

- the relatively small number of effected individuals and organisations;
- school services not being presented in timetable books; and
- the CSA Agreement payment never having been altered for such a change.

Particular consideration is given to safety when changing services for primary students.

The frequency of minor school changes is also increased by Metro's using the flexibility of these services to increase its operational efficiency, to the extent of changing routes, times and type of bus used.

As with all service changes, Passenger Transport Services must approve minor school service changes.

#### **8.3.3 In Summary**

Within the framework of the CSA Agreement, Metro has devised its own processes to accommodate as best it can changes in the demand for public transport in its operating areas. This responsiveness to the public demonstrates Metro's commitment to the public and is in addition to Metro's prime function of the provision of public transport services as contracted by the Government. Metro has received neither assistance nor direction from the Department, the

policy making body for public transport, as to the direction public transport should be taking in Hobart, Launceston and Burnie.

#### **8.4 Changes Made By Metro To Improve The Effectiveness Of Metro Services**

In addition to the Customer Service Charter Metro has introduced a range of service changes in recent years in order to make its services more effective in meeting the needs of our customers. These include:

- Community based services such as the Door Stopper, Shopper Shuttle, Shopper Stopper services as well Courtesy Zones.
- The commencement of a major bus replacement program to modernize the fleet and make Metro's services more accessible for those in the community with mobility difficulties, and the associated introduction of an accessible services timetable.
- The reorganisation of service timetables in Burnie and the introduction of services into Ulverstone.
- Changes which have kept the same driver, or a small group of drivers, on specific trips so as to increase the rapport with passengers.
- The specially adapted bus used for carrying passengers with surfboards to Clifton Beach in summer, and the extension of this to a mountain bike service.
- Special customer relations training for all staff, and first aid training for drivers.
- Increased numbers of timetables on bus stops, and the development of stop specific timetables to improve customer information.
- The Metro website and improved customer timetable and route information.
- Annual information sessions with year 6 students.
- The hiring of more female drivers.

Arising from the Government Prices Oversight Commission's last Investigation of Metro Pricing Policies (June 2000), a major innovation in Metro's fares was introduced in July 2000. This innovation removed the afternoon peak restriction from daily tickets for Adult, Adult Concession and Child / Student passengers, allowing these tickets to be used Monday to Friday (weekdays) after 9:00 am. During weekdays these daily tickets are particularly popular with Adult Concession patrons, and this change in their restrictions helps to explain the significant increase in Adult Patronage occurring up to about October 2001.

The change in time restrictions led to the following impacts:

- A 22% increase in Day-tripper ticket sales
- A 19% increase in Day-rover ticket sales;
- A 54 reduction in Seniors ticket sales (in favour of the more flexible Day-tripper)
- A 1% reduction in standard concession ticket sales
- A total 7.7% increase in concessional travel.

## **8.5 Changes Related To The Disability Discrimination Act 1992**

Metro has been proactive in its response to the passage of the *Disability Discrimination Act 1992* and the subsequent development of “Standards for Accessible Public Transport” and the Regulations to give effect to these standards (which were gazetted in October 2002). Metro produced its Disability Action Plan “*Metro on the move: Access 2000 and beyond*” in June 1999 and intends to review this plan in mid-2003 after sufficient experience has been gained with the new wheelchair accessible and low floor buses.

As per its Action Plan, Metro has been introducing measures to improve access to its services, both in terms of infrastructure and buses. Metro has become proactive in developing and implementing these improvements because of its commitment to the principle of ensuring that access to its service for all members of the community is maximized. Also, by responding positively to the requirements of this Commonwealth legislation, Metro hopes to raise the effectiveness of its bus services by expanding its markets.

Although the development of DDA and the supporting standards has been progressed through the Commonwealth and State Governments no special incentive programs have been introduced by the State Government to assist in the introduction of facilities or services to meet the needs of those members of our community with disabilities. There are costs associated with the introduction of such facilities and services which have not been built into the process of calculating the CSA Payment.

### **8.5.1 Infrastructure**

Metro has recently altered the design of its new bus shelters to accommodate a wheelchair and to include visual contrasts for alerting visually impaired individuals. Several such shelters have been installed in Launceston and Hobart.

The pedestrian pathways at Metro’s Head Office have been upgraded, and an access ramp for Launceston Office is included in the development application awaiting approval from Launceston City Council in December 2002.



### **8.5.2 Buses And Services**

Metro has introduced two new bus types that are wheelchair accessible and have ultra-low floors (no internal step until behind the rear door):

- three 14.5 metre long buses in September 2001; and
- ten 12.5 metre long buses in September 2002.

With both introductions some service timetables have been altered so that a defined set of services could be operated with accessible buses and a special accessible service timetable developed and promoted<sup>19</sup>. In this way the maximum benefit can be obtained for persons with mobility restrictions from a limited number of vehicles. With the 13 accessible vehicles (about 10% of the Hobart fleet) Metro has been able to provide a timetable that delivers about 16% of Hobart's Metro services timetabled as accessible, Hobart is well ahead of the schedule required under the federal legislation. A further ten 12.5 metre buses are due to be put into service in mid 2003 with a further 10 anticipated annually thereafter. The current plan is that once the next 10 buses are allocated to an expanded Hobart accessible timetable, the next buses will be allocated to services in Burnie and Launceston. Thereafter the proportion of the fleet that is accessible in each centre will be progressively increased.

After considerable consultation with community organisations and local government authorities, these accessible buses and timetabled services have been well received. Metro's additional operating costs associated with maximising the timetabling of these buses is very roughly \$40,000, whilst there are also a range of capital costs (each bus is estimated to cost about \$30,000 more than a non-compliant vehicle).

## **8.6 Options For Being More Effective And Implications For Metro Costs**

In its report for Metro "Appraisal of Patronage Trends and Prospects" (May 2000) consultants Booz, Allen and Hamilton provided an extensive list of "Proposed Patronage Enhancement Initiatives" together with suggested "Government and Community Issues – Metro Policies". These suggestions to improve the effectiveness of Metro's services arose from an examination of measures undertaken overseas and interstate.

Metro has seriously considered these suggestions, acting on them where possible and appropriate and keeping them in mind as future options for improving patronage.

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<sup>19</sup> Whilst services can be advertised as operating with an accessible bus it is not always possible to guarantee that an accessible bus is actually used on that service every day it operates. Sometimes vehicles breakdown and have to be replaced, or have to be taken out of service for repairs.

The “Proposed Patronage Enhancement Initiatives” are things Metro itself can do. An outline of the Booz, Allen and Hamilton suggestions is as follows:

*Service Enhancement Initiatives*

*Overall Network*

*Major Commuter*

*Local (Off Peak)*

*Student Services*

*Asset and Infrastructure Initiatives*

*Vehicles*

*Bus Stop Facilities*

*Bus Priority Measures (in conjunction with other authorities)*

*Marketing, Information and Customer Care Initiatives*

*Information at Bus Stops*

*Information Distribution*

*Individual Marketing Campaign*

*Driver per Bus Service Policy*

*Vehicle Branding / Livery*

*Vehicle Cleanliness*

*Service Reliability*

*Customer Care Training*

*Monitoring, Research and Planning Initiatives*

*Market Research Program*

*Service Performance Monitoring*

*Area / Sector Service Reviews*

*Planning of New Developments*

These measures focus on the supply side of the market or what Metro offers to the public in the way of bus services and vary greatly as to their costs and likely returns. In general, current resources (vehicles, drivers and the services they provide) can potentially be reorganised to provide better services from the public's point of view, at minimal cost. Other measures, such as those relating to Information Distribution and Service Reliability, are essential for providing a usable service for passengers, and are of relatively low cost.

Changes that involve a unilateral increase in services are unlikely to succeed as indicated by the low elasticity (plus 0.2-0.3) of public transport in relation to the level of service. If services increase by, for example, 10%, the resulting 2-3% increase in patronage will not recover the increased costs. For this type of service enhancement to succeed complimentary measures need to be taken on the demand side of the market for public transport. As the availability of business district car parking is the prime influence on changes to demand for public

transport, measures to restrict this availability together with increased public transport service levels have a much better chance of increasing the community's net benefits.

Effective measures on the demand for public transport are outside of Metro's control and are included in Booz, Allen and Hamilton's suggested "Government and Community Issues – Metro Policies", of which an outline follows:

*Land Use Planning*

*Urban Development / Densities*

*Transit Friendly Suburb Design*

*General Transport Policy*

*Road Pricing*

*Car Parking Policy*

*Bus Priority*

*Bus Regulatory Reform*

*Contract Areas / Service Reviews*

*Performance Standards*

*Private Sector Parity*

*Infrastructure Provision*

*Bus Stops, Shelters and Seats*

*Transit Centres*

*Street Infrastructure - Disability Discrimination Act*

*Local Council and Community Liaison and Consultation*

*Public Transport Promotion and Information Distribution*

*Marketing to New Residents*

*Economic Benefits of Public Transport*

One type of initiative not included in the consultant's suggestion is that relating to fares or the price of public transport. In section 8.4 reference has already been made to the changes in time restrictions on the use of Day-Tripper and Day-Rover tickets. In light of the positive result from this change further fare initiatives will be considered, and with the introduction of the New Ticketing System the opportunities to do so will be greatly expanded.

Metro is currently in the process of introducing "Metro 5's" as a new fares innovation. These are essentially books of 5 vouchers that can be exchanged for a Day-Tripper or Day-Rover ticket on the bus. The books attract a 10% discount and have the advantage that they can be shared between friends or used by parents to provide day-travel for their children at weekends or in the holidays.

### **8.7 Change In Corporate Culture, Customer Service Charter, Etc And Their Impacts On Effectiveness Of Service Delivery**

Metro is now a customer-focussed organisation.

The culture of Metro has changed over time from being an inward thinking organisation with low self-esteem.

There are significant factors, which have driven this turn around:

- Staff training to underpin Metro's commitment to its customers as outlined in the Customer Service Charter;
- Promotion and linkage to youth programs associated with healthy pursuits – e.g. sports and arts;
- Greater promotion through the media of Metro route and charter services and bus advertising, which have raised the general public profile of Metro;
- Evaluation through independent surveys of performance and actions arising;
- Changing the gender mix of the Metro workforce to better reflect the needs of Metro's core markets – students and concession travellers;
- Continuation of the program of productivity and quality improvements in maintenance activities.

#### ***Training***

The ongoing training program for frontline staff (drivers, counter staff, supervisors) is focussed on the importance of our interface with customers.

For example, in the last financial year some 83 employees successfully completed Level 3 Certificate in Transport and Distribution (Road Transport). Metro also commenced a program of providing specific customer service training program for all operators and this program will be concluded in early 2003.

Following that, it is planned to provide training to all front line staff on the consequences of the *Disability Discrimination Act* with respect to meeting expectations of customers with special needs.

#### ***Promotion Of Metro***

A wide variety of means has been employed to promote Metro and its services. These include: -

- media releases on developments in Metro's services, facilities, equipment and any other Metro initiative,
- participation in and initiation of community events,
- advertising,
- sponsorships,
- participation in community organisations and educational programs, and,
- competitions.

Examples of the Metro's promotional efforts are outlined below, many other items/issues have been pursued.

Media releases have resulted in significant exposure in the three main media, television, newspapers and radio. Issues/events involved have included: -

- New bus launches,
- Fares increases,
- Annual report publication,
- Revised services,
- Public Transport No-Hassles competition and Bully Free Bus launches,
- Metro's sponsorship of TCA Junior cricket and the Tassie Mariners.

Community events have included: -

- Many Metro employees participate in dress-up days/weeks for Canteen, ABC Giving Tree and other charities,
- Metro buses have been displayed at 'Truck Shows',
- A booth at the Senior's week expo promotes Metro's services and provides information on concessions.

Advertising: -

- Emphasis is given to radio in advertising services, but press advertisements are published for all service alterations and for alterations to fares. Leaflets are distributed to passengers describing service alterations and services during Easter and Christmas/New Year holiday seasons.
- Radio advertisements advise passengers of alterations, and have been used to promote bus usage e.g. when the price of petrol increased rapidly.
- Metro used information from the results of the 2000 benchmarking study to promote ourselves as the No. 1 publicly owned operator of bus services in Australia.
- Metro also uses bus advertising to promote its services.
- Bus advertising is advertised on buses and on radio.
- Metro has taken up the opportunity to include contact information and a schematic map of Hobart bus services in the Hobart telephone book.
- When there are significant alterations to services Metro employees are stationed in relevant bus stations prior to the implementation and for the first few days after the changes come into effect.

Sponsorships: -

Metro receives numerous requests for assistance and sponsorship proposals.

Significant sponsorship arrangements have been entered into with: -

- Football Tasmania,
- Tasmanian Cricket Association,
- Neighbourhood Watch.

Many small contributions have been made to assist school fundraising efforts, and to assist organisations which provide services to underprivileged and at-risk young people.

Community programs: -

- Metro has cooperated with the Hobart City Council in their efforts to promote the use of sustainable means of transport following the councils joining the Cities for Climate Protection, CCP™ program. This is an ongoing program which will involve a range of opportunities to promote the use of buses, other councils have recently joined the CCP™ program and further actions can be expected in the future.
- The National Union of Students, representing students at the University of Tasmania, approached Metro to arrange a day of free transport for students to promote the benefits of sustainable transport. The 7<sup>th</sup> August was nominated as Sustainable transport Day and the event day was promoted at the University.
- The promotion via radio advertisements and a media release of Metro's initiative to assist road safety through the \$1.00 ride Home program, whereby during December up until Christmas Eve, passengers can catch a bus for \$1.00 after 6:00pm.
- Metro has instituted a program of school visits to familiarise grade 6 students with Metro's services, as they prepare to move into secondary school, many students regularly travel by bus to secondary school.
- Officers of Metro have participated in committees involved in, Fear of Crime, Youth Health, a Police and Citizens Youth Club and several local council committees relevant to Metro.
- Metro and the RACT recently organised a Corporate Golf Day which raised \$17,500 for the Starlight Foundation.
- During Seniors Week Metro offers free travel to all Seniors.

Competitions

Several competitions have raised awareness of Metro and promoted use of Metro services and pre-paid tickets, competitions have included: -

- the public Transport – No Hassles logo and anti-bullying strategies competition amongst all Tasmanian primary and secondary students.
- Free entry draws for holidays etc have required the submission of used Metro tickets.

### ***Female Drivers***

In recent years, Metro has adopted a policy of giving preference to females in applications for new bus drivers so as to align the gender composition of our

workforce to more closely reflect that of our customers. We see this as making Metro more reflective of community attitudes, needs and wants.

There is no belief in Metro that women perform the task of bus driver any better, or any worse, than men. However, they bring a different perspective to the same job. A workforce that is not dominated by one gender is believed to be a more appropriate structure for the nature of Metro's work and also provides a more vibrant, inclusive and modern organisational culture within which to work.

This strategy has resulted in the proportion of drivers that are female increasing from 3% (8 women) in 1995 to 36% (118 women) by the end of 2001/2002.

During the year, Metro applied for and received a further exemption from the Anti-Discrimination Commission allowing it to specifically recruit females for driving positions. The exemption expires on 31 October 2003.

### ***Metro Engineering***

In the Metro engineering section, a program of productivity and quality improvement in maintenance activities has been conducted for a number of years. This encourages all levels in the engineering department to think and work in a manner that is mindful of organisations goals. They are encouraged to accept greater responsibility through devolving responsibility to undertake and recommend specific projects that have positive outcomes in relation to organisation goals. This has been a positive culture change providing Metro with improvements in efficiency and effectiveness.

### ***Accreditation***

Insert section on the systems Metro is introducing to not only meet but better the requirements of accreditation so as to ensure a fully quality focused organization.

## **8.8 Improving The Integration Of The Public Transport System**

Primary responsibility for ensuring that the public transport system appears as an integrated whole to the traveling public rests with the Department.

Metro is identifying opportunities to improve things in this area through such actions as:

- Working with the Glenorchy Council and the Taxi industry to revise the use of bus stops with the Glenorchy bus mall after hours so that the after-hours taxi rank can be located within the bus station area.
- An agreement with Tassie-Link / TigerLine to enable passengers on the new "Spirit" services to buy vouchers that can then be traded for Metro day tickets when passengers disembark in Burnie, Launceston or Hobart.



- Participating in the development of the new Launceston Transit centre providing an interface between urban and regional bus services. This will enable opportunities to be identified to improve the level of integration (such as poor connections between services).

Metro also endeavors to focus on providing for effective integration within its own timetable to enable the more important cross-town service links to take place, desirably without changing buses.

The introduction of a new ticketing system will provide a wide range of opportunities to improve integration by enabling passengers to use the same card for travel on services of different operators. This already occurs to some degree within the student transport field where the Department issues transfer passes to enable passengers to move between operators without the need to pay an additional fare. The development of a system to achieve this for other passengers requires the Department to develop the appropriate framework to ensure that individual operators do not lose out financially by providing travel for a passenger who has paid another operator for a ticket.

Metro, in line with most other members of the Tasmanian bus industry, works together with other bus operators to provide for inter-connections of services to enable travel to take place between origins and destinations where there are no direct services. An example of this is Metro's dropping off passengers from Gagebrook and Old Beach at Metro's Racecourse bus-stop, to be collected by a private sector operator for travel to St Virgil's College at Austins Ferry. Metro's involvement in such informal arrangements has probably diminished in recent years as private sector operators have been allowed to continue their services beyond the CBD to drop off passengers at their destinations within Metro's service areas. Previously Metro would have carried these passengers on their services for part of their journey.



## **9 METRO FUNDING ARRANGEMENTS**

### **9.1 The CSA Agreement**

Under the “purchaser-provider” model the CSA Agreement is the key document affecting the operations of Metro.

The CSA Agreement needs to be a sound commercial contract which:

- Specifies what needs to be delivered, in what manner and at what price;
- Clarifies the roles of both parties in service delivery, detailed planning and decision making;
- Facilitates appropriate reporting and auditing to enable the purchaser to be satisfied that the requirements of the service contract have been met, whilst avoiding the imposition of excessive and unreasonable administrative controls; and
- Establishes the basic rules about handling changing circumstances.

However, the CSA Agreement has the potential to be much more, particularly in the Tasmanian situation where the Department has very limited capacity to become involved in the detailed planning of services, but rather sees its role as one of providing the overall strategic direction and making decisions where significant changes to the CSA Payment would result.

In such circumstances the CSA Agreement also has a potential role to:

- Provide incentives to encourage the outcomes the Government really wants without the need for interventionist actions by the Department; and
- Provide disincentives to discourage the outcomes that Government doesn’t want, again without the need for interventionist actions by the Department.

A contract for the delivery of public transport services is not like a contract for the supply of paper clips. The product being purchased is more difficult to define simply because the transport service is an intermediate good. Also, even if the transport services could be fully specified at a given point in time, the changing nature of the underlying mobility requirements of the community is such that this specification would need to be continuously reviewed and adjusted.

The CSA Agreement cannot be a “straight-jacket” legal document that is overly-prescriptive and requires “approval” to do anything different. The Department does not have the capacity to micro-manage service delivery.

However, creating an Agreement that allows flexibility and provides incentives has the potential downside that the contract payments will vary according to the performance in meeting the underlying mobility needs of the community. This becomes a problem where precision over budget allocations is seen as critical.

It is Metro's view that the historical desire for precision over budgetary allocations has been a factor in stifling the use of the CSA Agreement as a mechanism for more clearly defining the outcomes Government wants and then developing incentive mechanisms to encourage the delivery of those outcomes.

By comparison funding arrangements for the private sector bus operations, and in particular the policies that have been adopted for the payment of student fare top-ups, have implicitly provided clear incentives which have encouraged the bus industry to respond through the expansion of certain types of service resulting in a progressive expansion of government funding for such services<sup>20</sup>.

Sections 2.3 and 2.4 of this submission have provided relevant background information about the current CSA Agreement, how the Agreement is administered and the incentive mechanisms that exist within the current funding arrangements. Section 8.1 has looked at defining what outcomes the Government wants to be delivered.

In this section of the submission consideration will be given to the potential use of the CSA Agreement as a mechanism for providing appropriate signals and incentives (or disincentives) to achieve the outcomes that Government wants.

## **9.2 Possible Incentive And Disincentive Mechanisms**

### ***9.2.1 Penalty And Bonus Payments For On-Time Performance***

When setting up the 2000/2001 CSA Agreement consideration was given to introducing a disincentive system of "penalty payments" for non-performance in relation to the cancellation of services, as well as the late or early running of services. Such penalty payments have become included in service contracts for both rail and bus service providers in other parts of Australia and the rest of the world. Such penalty payments have not been generally applied in Tasmania.

Discussion relating to the introduction of a penalty payment system within the CSA Agreement led to identification of a number of significant issues:

- How to define what are accepted "norms" for service cancellation and on-time performance (no system is perfect so there will tend to be a percentage of services that run late for one reason or another).
- The absence of an accurate system-wide mechanism for measuring on-time performance through the use of a GPS tracking system (this may be achieved through the new ticketing system).
- Defining appropriate penalty payments for service cancellation and on-time performance.

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<sup>20</sup> It is acknowledged that top-up payments were not developed through a process that first identified the precise outcomes desired, and then developed incentive mechanism to deliver those outcomes.

- Measuring performance against a perfect system with no cancellations or late/early running, as compared to a realistic system with a given percentages of cancellations or late/early services.
- The appropriateness of also having bonus payments for good performance.
- Adjustments to the CSA Payment to accommodate the ability for Metro to pay penalties for a level of performance in line with either the accepted norms or Metro's current performance.
- The appropriateness of imposing penalties on Metro for matters that are beyond Metro's control (eg where late running is due to heavy snow, or traffic accidents, or traffic congestion resulting from traffic light failure, etc).
- The cost of obtaining data and administering such a "penalty payment" system.
- The impact of any penalty payment system on the process of setting passenger timetables and the average operating speed of public transport. This is particularly important where there is natural variation in running times and traffic conditions due to factors such as the day of the week, or if it was a school or non-school day<sup>21</sup>.

In the end it was decided to abandon the development of any penalty system and rely instead on Metro's established system of monitoring on-time performance through user surveys and reporting on such performance through:

- contract reports;
- community feedback relating to Metro's customer service charter (refer section 8.2.4).

A particular factor underlying this decision was the fact that Metro is funded on a break-even basis and the CSA Payment had not been calculated to contain any provisions to pay penalty payments for realistic performance levels. Metro would require funding to be increased to the extent of penalty payments associated with acceptable levels of performance, and would also need the ability to pay penalty payments above this level through reduced profit levels should performance drop below acceptable standards.<sup>22</sup>

With the likelihood that a new ticketing system could facilitate closer measurement of on-time performance in a reliable system-wide manner, it may be appropriate to reconsider the introduction of a system penalty payments and

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<sup>21</sup> As an example, if there were penalties for early running then Metro would face increased penalties during school vacations due to the fact that there is less lost time due to passenger boardings and lighter traffic flows (and hence congestion delays). To avoid running early drivers would need to drive at a lower speeds than the prevailing traffic to keep to timetables set for school-term conditions. Alternatively there would need to be different public timetables during school vacations, which would result in confusion to the general traveling public. There are many other practical operational issues to take into account relating to the issues of penalty and bonus payments for on-time performance.

<sup>22</sup> Penalty payments could also become a cost which would influence the total cost per kilometre.

bonus payments for “on-time performance” above or below accepted norms. However, if this were to be pursued then there would need to be a move away from the “break-even” funding approach.

### **9.2.2 Per Passenger Incentive Payments – Fares And Fare Top-Ups**

Metro receives a form of per passenger “incentive payment” through its ability to retain fares revenues. The private sector bus industry receives different per passenger “incentive payments” through the retention of different passenger fares (generally higher than Metro’s as established through previous GPOC Reviews) plus the payment of “fare top-ups” for students and concession passengers.

Economic theory indicates that in a free market producers will behave so as to deliver additional goods and services as long as the marginal costs of providing such goods and services can be at least covered by the marginal revenues obtained for such goods or services.

At the moment Metro obtains about 70% of its funding from the CSA Payment and about 25% from fares revenues. The CSA Payment is a base funding amount that does not vary with the level of patronage, although its initial calculation at the start of a contract period reflects expectations concerning passenger revenues.

Table 5.2 provided some information about the breakdown of Metro boardings for 2001/02 which enables some conclusions to be drawn about the current pattern of “incentive payments” for different categories of passengers. This is supplemented by further information in table 9.1 below.

As a general rule there are very few Metro services where the marginal revenue received by Metro exceeds the marginal costs. If the costs of vehicle acquisition are allocated to peak services it is feasible for a number of highly patronized off-peak services to actually cover costs. However, even in these situations the high levels of day-ticket use by travelers would lead to a situation where it is extremely unlikely that in a true sense marginal revenue exceeded marginal costs for a given service.

Metro’s peaks are significantly affected by the need to cater for students. However, we have a situation where Metro receives far less revenue per passenger for students than any other category of passenger. As can be seen from Table 9.1 child/student passengers account for between about 40 and 50% of passengers. Overall about 40% of child/student passengers pay no fare (free pass students). By comparison the private sector funding support is structured so that the revenue per passenger is unaffected by the fact that whether the student qualifies for free travel or not, and the level of payments for students (particularly on student only fare paying services) is such that marginal revenues exceed marginal costs. The result has been an incentive structure that encourages industry to provide this type of student service.

<b>Table 9.1 Analysis of Boardings Statistics, 2001 - 2002</b>				
	<b>Hobart</b>	<b>Launceston</b>	<b>Burnie</b>	<b>Statewide</b>
City as % of Total Patronage	74.3%	20.1%	5.6%	
Child/Student	37.9%	52.5%	50.1%	41.5%
Adult Concession	37.8%	33.8%	33.2%	36.7%
Adults	24.3%	13.7%	16.7%	21.7%
Free as % of Total Child/Student	37.1%	43.5%	53.9%	39.9%
Free Students as % of Total	14.1%	22.8%	27.0%	16.6%
Day Tickets as % of Total Adult Concession	64.5%	56.5%	68.2%	63.2%
"Free Adults" as % of Total Adults	3.5%	2.8%	12.5%	3.8%
<u>Adult sectional tickets as % of Total Adults</u>				
1 - 2 Sec	32.5%	26.3%	67.6%	33.2%
3 - 4 Sec	31.9%	48.7%	6.2%	33.0%
5 - 7 Sec	21.5%	14.3%	0.7%	19.7%
8 - 10 Sec	4.4%	0.8%	0.6%	3.8%
11+ Sec	0.7%	0.0%	7.2%	0.9%
<b>Total</b>	<b>91.0%</b>	<b>90.1%</b>	<b>82.4%</b>	<b>90.5%</b>
<u>% Pre-paid by Passenger type</u>				
Child/Student (Include Free Pass)	38.3%	34.9%	25.1%	36.5%
Child/Student (Exclude Free Pass)	60.8%	61.7%	54.5%	60.7%
Adult Concession	20.8%	17.7%	19.1%	20.2%
Adults	36.8%	17.4%	10.9%	33.3%
Total (All types)	31.3%	26.7%	20.7%	29.8%
Total (All types, excluding Free Students)	36.5%	34.6%	28.4%	35.7%

There are a number of other categories of passenger that travel for free as illustrated in Attachment B. Whilst these passengers only account for a small proportion of travel in Hobart and Launceston (about 3% of Adult boardings) the situation in Burnie is significantly different (about 12% of Adult boardings).

In off-peak periods concession passengers often form the majority. As a general rule the majority of concession passengers use day-tickets. As such the revenue generated relates more to access to the system rather than to a specific individual trip. The same conclusion can be drawn for passengers using pre-paid monthly tickets or other day-tickets.

It may be that GPOC is interested in proposing that Metro receives more revenue per passenger (through fares plus some form of fare top-up payment) and less from the base funding, in the anticipation that Metro will then pursue the provision of more services where marginal revenue exceeds marginal costs. Such a strategy will need to take into account the effect of tickets that allow access to the system as a whole in some form of unlimited way so that revenue does not vary in proportion to the travel undertaken. Such tickets include the daily and monthly tickets identified above. However, Metro also has a large number of flat fare tickets that allow unlimited distance travel for a single fare. The vast majority of Metro's tickets are focused on allowing access to the system (via unlimited travel on a given trip or via unlimited travel for a defined period).

There appears to be a dichotomy here. From the user's perspective there is a great deal of merit in tickets that permit system access in unlimited ways. However, if there is a desire to use the revenue generation process to encourage the operator to provide certain types of services then the revenue generation needs to be more closely tied to the provision of such services.

Metro is of the view that there is a need to give more detailed consideration to the use of per passenger funding incentive structures as a means of encouraging Metro to more actively seek out specific markets. However, it is recognized that this is a complex issue and one that cannot simply be reduced to the provision of each service being judged on the basis of whether the marginal revenue does or does not cover marginal costs.

The advent of a new smart-card ticketing system could enable the establishment of a form of passenger top-up funding arrangement to be introduced for Metro.

A critical factor in the acceptability of any change to increased reliance on per passenger payments would be how to accommodate any underlying trend decline in passenger numbers, or a shift in patronage mix. This could be achieved by an agreement for a contract period to a series of patronage level forecasts.

A second critical factor in any move towards greater reliance on per-passenger funding systems would be the funding of Metro on a fully commercial basis, incorporating a return on capital. This would enable Metro to have some flexibility in a given operational period to accommodate a lower than anticipated patronage outcome.

### ***9.2.3 Other Incentive Payments***

It should also be feasible to develop incentive structures as part of any "base level" funding arrangement. Such incentives could relate to performance in terms of the quality of the vehicle fleet and other facilities provided. For example, if the average fleet age was lower than some accepted norm, or the proportion of the fleet that was wheelchair accessible was higher than the minimum

requirement under the DDA then bonus payments could be made, or alternatively penalty payments could be required if the reverse was true.

### **9.3 Payments For Additional Services.**

Within the framework of the existing CSA Agreement the CSA Payment can be amended to cover the additional costs of extra services or service changes (refer section 8.3). The adjustment to the CSA Payment is currently determined on a case-by-case basis as agreed between the parties.

This approach is adopted because:

- there are situations where a small change may require an additional peak bus, whereas a relatively large change may be able to be accommodated using existing vehicles;
- the impact upon labour costs can vary significantly according to when the service change occurs;
- the inter-linkages that exist between different services can mean that a series of related changes can enable a given service change to be accommodated with minimal overall impact in some situations, whereas in other situations this is not feasible.
- A given service changes will have different impacts on fares revenue according to the number of passengers and type pf passengers expected to be generated (or impacted). This will influence the overall net cost of the service change and hence the CSA Payment.

An alternative approach is to specify within the CSA Agreement set rates for additional peak buses and additional bus kilometres.

Such an approach would encourage Metro to identify service changes where the marginal revenue flowing from additional passengers plus additional CSA Payments, would offset the additional costs associated with providing the service change. Such proposals would be submitted to the Department and could be approved or rejected as they see fit. Metro would not seek to pursue service changes where the marginal revenues were less than the marginal costs, unless of course the change could be packaged with other changes that made the package as a whole “profitable”.



## 10 METRO INDEX

### 10.1 The Role Of The Metro Index

The Metro Index was introduced on the recommendation of the Commission as part of their 2000 report. The index is designed to be a better measure of Metro's costs than the Consumer Price Index, which was used in the original *Government Prices Oversight (Metro Bus Fares) Order 1997* as the basis for adjusting Metro fares.

The Metro Index is defined in the *Government Prices Oversight (Metro Bus Fares) Order 2000* and comprises the following elements:

- An index of Metro labour costs (with a weighting of 60.1%)<sup>23</sup>;
- An index of fuel costs (with a weighting of 8.7%)<sup>24</sup>;
- An index of vehicle parts and equipment costs (with a weighting of 20.5%)<sup>25</sup>;
- An index of other costs (with a weighting of 10.7%)<sup>26</sup>

The Metro Index serves two functions.

- It is used as the basis for determining the maximum allowable adult fares for Metro in line with the mechanisms outlined in section 2.5; and
- It is used as the basis for the quarterly adjustment of contract payments under Metro's CSA Agreement.

Under its terms of reference the Commission is required to review... *"the adequacy of the Metro index in reflecting Metro's costs and to make recommendations as to the need to make modifications to this index in order to effectively reflect changes in Metro's input costs for the next 3 to 5 years"*.

The main aim here is thus to define a series of component sub-indices that accurately reflect Metro's input costs. Metro has identified a number of problems with components of the Metro Index and specific aspects of the Order in calculating the Index. Metro has raised a number of these issues with the Department and outlines these matters below.

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<sup>23</sup> The Labour index used is the ABS wage cost Index for Transport and Storage Industry, Australia Wide, private and public, Ordinary Time hourly rates excluding bonuses.

<sup>24</sup> The fuel cost is the average delivered price of fuel to Metro over the preceding three months under the Government supply contract, net of GST and net of the Diesel and Alternative Fuel Grant.

<sup>25</sup> The parts and equipment index used is the same as for the School Bus Index; the ABS Price Index of materials used in the transport equipment and parts industry (ANZSIC subdivisions 281 and 282).

<sup>26</sup> The other costs index used is the Hobart CPI.



## 10.2 Practical Problems With Calculating The Metro Index Under The Order

A number of practical problems have been identified with calculating the Metro Index in line with its definition within the Order. These problems need to be rectified in any redefinition of the Metro Index.

- The fuel index is based on the average delivered price of fuel to Metro divided by 1.1 to eliminate the GST (which is refunded to Metro) and then reduced by 17.798 c/l (for the Commonwealth DAFG). From 1 February 2001 the DAFG increased to 18.51 c/l. Metro agreed with the Department to treat the calculation of the Metro Index as if the Order had been changed to reflect the change in the DAFG as of 1 February 2001. However, the Order has not been changed.
- In the GPOC final report for the 2000 review the “other costs” index was recommended to be the CPI adjusted for the effects of the New Tax System, whilst the vehicle equipment and Parts index was recommended to be the ABS Transport Equipment Index adjusted for the New Tax System. The ABS has not produced any indices adjusted for the new tax system<sup>27</sup>. The indices specified in the Order make no reference to adjustments relating to the New Tax System. Officer level advice from the ABS was that “it would be unlikely that there would be any noticeable impact on vehicle parts and equipment” and that “a once off adjustment of 2.5 in the CPI for the effects of the New Tax System would not be unreasonable”. Metro agreed with the Department to treat the calculation of the Metro Index as if the Order specified a reduction of 2.5 index points in the CPI from the September 2000 quarter onwards.

Whilst these adjustments are within the spirit of the Metro Index calculation process they are not within the letter of the Order, and as such Metro has placed itself at a disadvantage in terms of delaying the fares increase that occurred in September 2002. If the above adjustments had not been made then fares would have been increased in September 2001.

This raises a further practical problem in that the Order assumes that the Metro Index continues to go up. In reality the Metro Index actually fell from September 2001 to April 2002. Had Metro increased its fares in September 2001 it could then have become technically in breach of the Order by November 2001 due to the decline in the Metro Index. Any future Order needs to be able to accommodate small downward movements in the index without requiring fare reductions.

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<sup>27</sup> The only information published by ABS was a special article entitled “Measuring the impact of the new tax system on the September Quarter 2000 Consumer Price Index”. This indicated that the effect on the CPI was likely to be somewhere in the range of 2.3 to 2.7 index points.

### 10.3 Do The Components Of The Metro Index Reflect Metro's Costs?

The key function of the Metro Index is to reflect movements in Metro's input costs. Below we look at how each component index has performed this role.

#### 10.3.1 Labour Costs

Labour is the greatest area of costs for Metro. It is thus more important for the Metro Index to properly reflect actual labour cost movements than any other area of cost. Figure 10.1 and Table 10.1 illustrates the movements in the ABS index used as a proxy for Metro's labour costs over the last 5 years, together with movements in the award wages of Metro drivers plus Superannuation Guarantee Fees and the labour sub-index used in the School Bus Index.

This comparison shows that since the start of the Metro Index (1 July 2000) and the start of the current CSA Agreement (1 July 2001) Metro's labour costs have moved far more closely with the labour sub-index of the School Bus Index. This is to be expected in that Metro's labour costs and the labour costs underlying the SBI are largely determined by National Wage Case decisions and changes in on-costs such as the SGF.

The argument presented by GPOC in setting up the Metro Index for not using Metro's specific wage outcomes as the basis for adjusting labour costs was the need to avoid building in a mechanism for automatically compensating Metro for any "inefficient wage outcomes" that may be agreed to. However, this argument is not valid if the basis of adjusting for labour costs movements is in fact the National Wage Case decisions.

On this basis there is a strong argument for revising the labour component of the Metro Index to either:

- Use the labour sub-index inherent within the School Bus Index or some revised weighting of the elements of that sub-index<sup>28</sup>; or
- Use the National Wage Case determinations; or
- Identify an alternative ABS labour cost index that better tracks National Wage Case decision outcomes.

When the ABS index was selected for use in the Metro Index comparisons were made with Metro award wages over the preceding two-year period. Figure 10.1 and Table 10.1 both illustrate the fact that, at the time the ABS index was selected for this role, it was reasonable to accept is a good proxy for Metro's labour cost movements. However, consideration of movements over the last 18 months indicates that Metro's labour costs have grown at approximately twice the rate of the movements in the ABS index.

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<sup>28</sup> The School Bus Index contains three basic labour indices relating to drivers, maintenance/cleaning and administration.

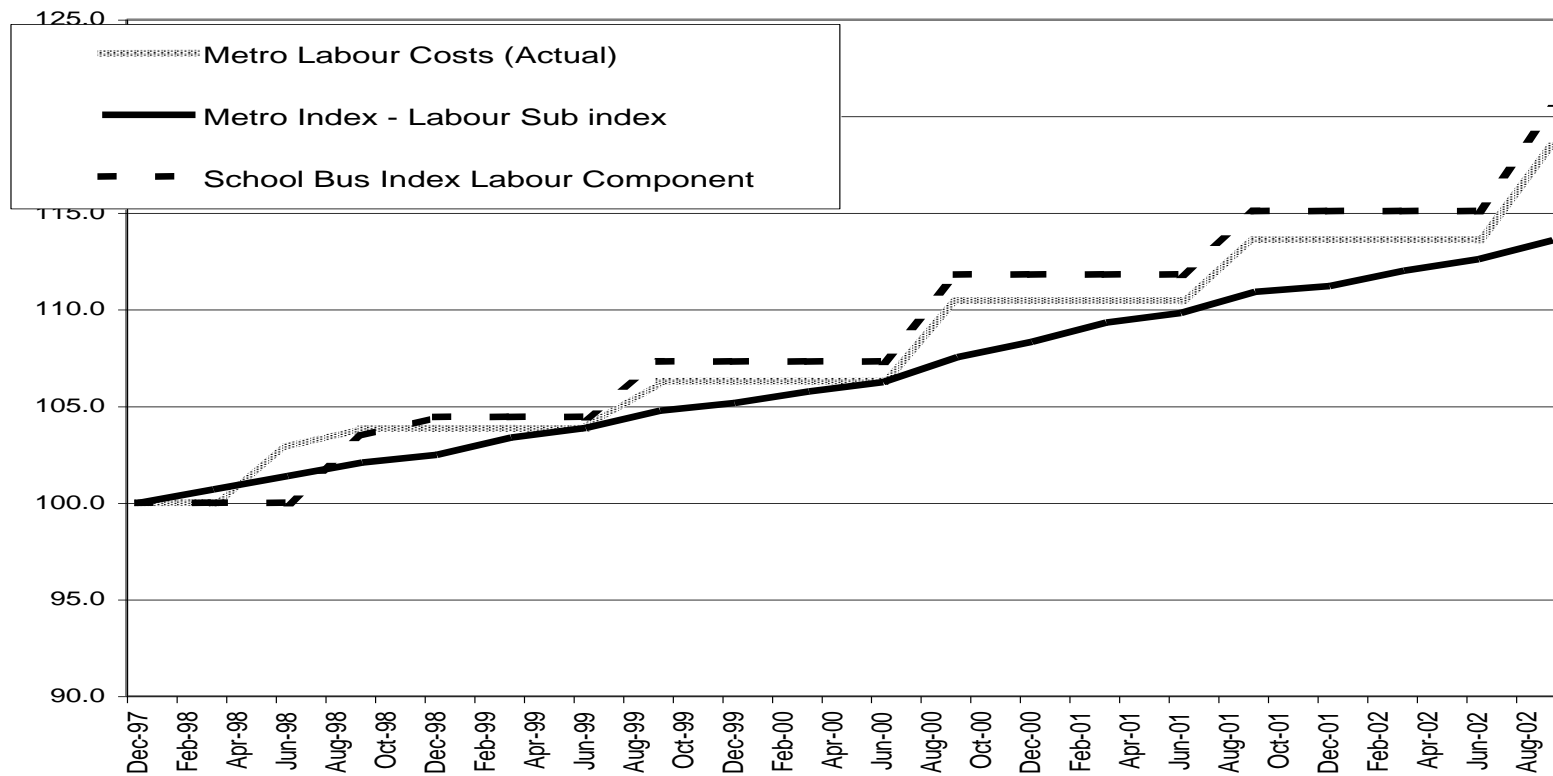
Discussion at officer level with ABS indicate that the current ABS labour index does not incorporate workers compensation costs, payroll tax and the most recent increase in superannuation guarantee charges (the move to 9% will not be incorporated until June 2004). ABS advise that they will be releasing new labour cost indices in 2004 which will be based on the full range of labour cost components for the employer. However, until this is done continued use of the ABS labour index is resulting in Metro being unable to recover the additional costs associated with the increase in the Superannuation Guarantee Fee (up from 8% to 9%) and the recent significant increases in workers compensation premiums.

The SGF adjustment alone amounts to just under a \$10,000 per month shortfall in the value of Metro's CSA Payment, or \$112,000 a year.

**TABLE 10.1 - COMPARISONS OF TRENDS IN LABOUR COSTS**

	<b>Metro Labour Costs Total</b>	<b>Metro Index Labour sub-index</b>	<b>SBI Labour Index</b>
<b>Dec-97</b>	100.0	100.00	100.00
<b>Mar-98</b>	100.0	100.69	100.00
<b>Jun-98</b>	102.9	101.39	100.00
<b>Sep-98</b>	103.8	102.08	103.46
<b>Dec-98</b>	103.8	102.48	104.44
<b>Mar-99</b>	103.8	103.37	104.44
<b>Jun-99</b>	103.8	103.87	104.44
<b>Sep-99</b>	106.3	104.76	107.31
<b>Dec-99</b>	106.3	105.16	107.31
<b>Mar-00</b>	106.3	105.75	107.31
<b>Jun-00</b>	<b>106.3</b>	<b>106.25</b>	<b>107.31</b>
<b>Sep-00</b>	110.5	107.54	111.82
<b>Dec-00</b>	110.5	108.33	111.82
<b>Mar-01</b>	110.5	109.33	111.82
<b>Jun-01</b>	110.5	109.82	111.82
<b>Sep-01</b>	113.6	110.91	115.09
<b>Dec-01</b>	113.6	111.21	115.09
<b>Mar-02</b>	113.6	112.00	115.09
<b>Jun-02</b>	113.6	112.60	115.09
<b>Sep-02</b>	118.5	113.59	120.42
<b>% increase from June 2000</b>	<b>11.45%</b>	<b>6.91%</b>	<b>12.22%</b>
<b>% increase from June 2001</b>	<b>7.23%</b>	<b>3.43%</b>	<b>7.70%</b>

**Figure 10.1: Comparison of the Metro Index "Labour Sub-Index" with An Index of Actual Metro Labour Costs and the School Bus Index "Labour Sub-Index".**



Advice was sought from the Victorian Department of Infrastructure as to the mechanism used in Victoria to adjust urban route operator contract payments. The advice received was that they used the Victorian average weekly earnings (full time ordinary earnings – trend series) to provide a base labour cost and then added the various overhead components as % mark-ups on the base labour rate. These “on costs” included the superannuation guarantee fee, payroll tax and workers compensation. The benefit of this approach is that changes in policy (such as the move to a 9% SGF rate) can be implemented immediately rather than with significant lags through adopting a broader based ABS index that was designed to incorporate these on-costs.

It is understood that the SBI adopts a similar type of approach by using an award wage rate with an agreed “on cost” mark-up, with this mark-up being adjusted for movements in SGF as and when they occur. All on-cost components can be adjusted up or down as and when considered appropriate.

The most practical modification to the Metro Index labour sub-index would be to either adopt the SBI labour index or else to use a similar basic methodology based on an agreed award rate adjusted for on-costs in the same way that happens for the SBI.

### **10.3.2 Fuel Costs**

In relation to fuel, the input cost index used in the Metro Index is the average delivered price of fuel to Metro over the previous 3 months less rebates of GST and the Federal Diesel and Alternative Fuel Grants. As such this component index will accurately reflect Metro’s unit costs over time provided that the definition is amended to be responsive to changes in policy, as compared to the static definition used in the Order now.

In section 10.2 reference has been made to the fact that the Order uses the rebate level of 17.798 cents per litre, rather than the current index of 18.51 c/l. The Index currently is like a clock that is not working, it will be right at certain times but wrong at other times. Just changing the rebate level to 18.51 c/l is not the answer because that is like moving the hands whilst the clock mechanism is still broken. It will now be right at different times. The rebate level needs to move dynamically as policy changes.

The main problem with the fuel index is the effects of lags and averaging means that the index never accurately reflects Metro’s current fuel costs unless fuel prices are stable. This can become a problem for a given financial year, and is made more of a problem due to the “break-even” budgeting that Metro is required to employ.

A further problem caused by the lagging is illustrated by the introduction of low sulphur fuel. Metro has been advised that the impact of this “new fuel” will be around 0.6 cents per litre. As this is a differential that will exist for ever there will

be a cost to Metro of around \$10,000 due to the lag associated with the price going up that will not be compensated for in the future because the price won't come down for this factor.

Apart from the specific difficulties created by the lag the existing Metro sub-index accurately reflects Metro's fuel costs.

Also because Metro's fuel contract is awarded through a tender process and is subject to competitive pressures there is no ability to build in inefficiencies by using Metro's actual costs to adjust for movements in fuel costs. The data to compile the diesel fuel cost index could become a requirement of any future awarding of the Government tender. The diesel fuel price index could be used more generally by the Department as part of the School Bus Index.

### **10.3.3 Vehicle Equipment and Parts**

This is the second largest area of costs for Metro, and thus the second most important area to ensure that the input cost index is a true reflection of Metro's costs. The cost element covers vehicle maintenance and repairs as well as motor vehicle insurance and depreciation.

The input cost index used in the Metro Index is the same index that has been used in calculating the School Bus Index for a number of years, although the weighting applied in the SBI is lower due to the lower unit value of capital (per bus), and hence depreciation costs, associated with the school bus industry in general.

Consideration of the ABS index used as a proxy for Metro's costs in this area shows that it declined significantly in the quarter ended September 2001 and has stayed at approximately that level since.

Metro are of the opinion that actual costs in this area have not declined, and as such there has been a failure in the ABS input cost index used to properly track Metro's costs in this regard.

It is understood that the Tasmanian bus industry is also dissatisfied with how the School Bus Index is tracking industry costs in this area (the SBI uses the same ABS index as a proxy for cost movements). It is understood that the Department is currently working with the bus industry to review and overhaul the School Bus Index.

In relation to vehicle parts and equipment, it is understood that the Department and the Tasmanian Bus Association were contemplating adopting a "parts and equipment" index being developed for the Victorian Department of Infrastructure for use in their process for adjusting contract payments.

Discussions with the Victorian Department of Infrastructure indicate that two attempts have been made to have consultants develop a suitable "parts and equipment" index. Both indices have been rejected by industry because of their complexity and difficulty in maintaining. It is understood that Victoria have

decided instead to use the Melbourne CPI as the basis for adjusting contract payments relating to “parts and equipment” as well as “other expenditure”.

In May 2002 Metro made a submission to the Department alerting them to the failure of the ABS input cost index in properly tracking Metro parts and equipment costs. The Department acknowledged the problem and decided to refer the matter to GPOC to consider as part of its review of the Metro Index as part of this current process.

In preparing its submission to the Department, Metro developed an index based upon its own cost experience as well as consulting with the Australian Bureau of Statistics at officer level to identify possible alternative indices that better matched Metro’s cost experience. In doing this work Metro identified:

- That the ABS had discontinued the publication containing the vehicle parts and equipment index specified in the GPOC Order, and indicated that the relevant index had been transferred to another publication, although the description of the index had been modified.
- The revised description of the index was the index of materials used as inputs to the transport equipment and parts industry (ANZSIC subdivisions 281 and 282) – Table 14 of the ABS publication 6427.0, Producer Price Indices.
- A far more appropriately defined index was to be found in the same ABS publication. An index of the price of materials produced by the transport equipment and parts industry (ANZSIC subdivisions 281 and 282) – Table 11.

Whilst it could be expected in the long-run that trends in the prices of inputs to and outputs from a given industry sector should move in a similar fashion, there were significant differences between the above two ABS indices from September 2001 (refer to Table 10.2).

At the time the Metro Index was developed there was no reason to believe that the sub-index selected to represent cost movements in this particular area would not perform its task. It had been used for some time as part of the School Bus Index without any significant problems being identified.

However, the outcome has been that Metro’s costs in this area have risen whilst the value of the ABS Vehicle & Parts index has fallen, resulting in lower adjustments to CSA Payments and the deferral by 12 months of an adjustment to Metro’s fares, further reducing the real value of Metro’s revenue streams.

Table 10.2 illustrates the trends in the two ABS indices, Metro’s index of actual costs in this area and the Hobart CPI. From this it can be seen that the ABS index chosen to reflect Metro’s costs in this regard has not performed its role and requires to be replaced. The Metro Index sub-index has fallen about 2% since the start of the current CSA Agreement, whilst Metro has experienced cost increases of something in the order of 6-7%.

Of the alternatives identified the general CPI for Hobart shows the best fit, whilst the index of *Prices of Articles Produced by the Transport Equipment & Parts*

*Industry* (table 11) is clearly better than its sister index from table 14 of the same ABS publication.

Both ABS indices have the problem that they are focused on the domestic industry, which has a significant component of domestic production. By comparison the Australian bus industry relies far more heavily on imports of completed vehicles, engines, chassis and other parts.

There is a clear need to identify an alternative price index that better reflects actual industry experience relating to vehicle equipment and parts.

#### **10.3.4 Other Metro Costs**

No significant analysis has been undertaken of the movement in other Metro costs by comparison to movements in the Hobart CPI, adjusted for the effects of the New Tax System.

The only area of costs that has moved abnormally in this area appears to be general insurance costs. Metro's two major insurance costs are incorporated into other areas of cost. Workers compensation premiums are incorporated as part of labour costs and motor vehicle insurance costs are incorporated into vehicle equipment and parts.

Metro would not propose to alter the use of the CPI for this purpose. However, there is no longer any need to take into account adjustments for the effects of the New Tax System which related only to the September quarter 2000 CPI figure.

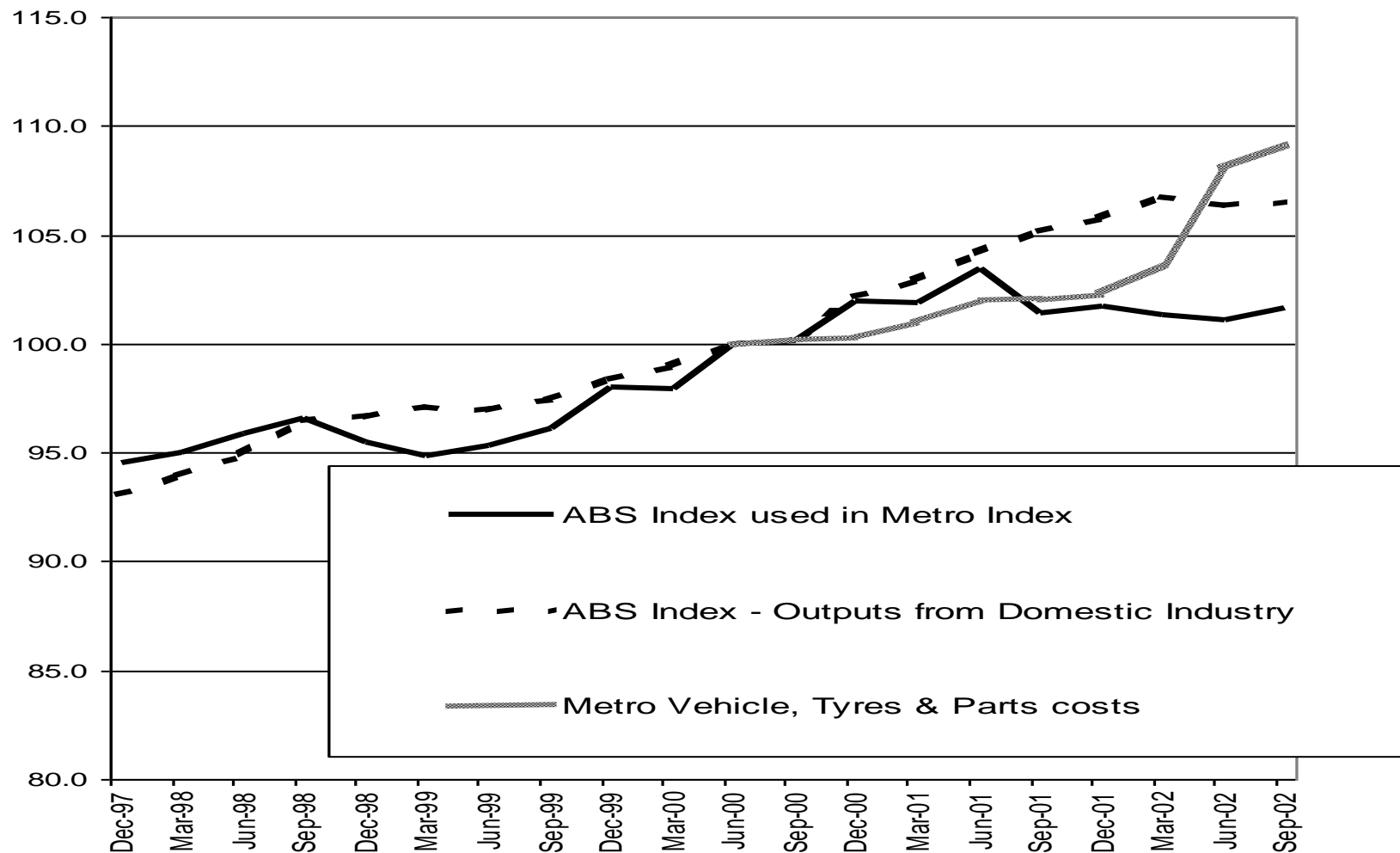


**Table 10.2: Comparisons Of Metro Equipment & Parts Cost Experience With The Metro Index Sub-Index And Possible Alternatives**

	ABS Producer Price Indices Table 14 - Prices of Inputs to the Transport Equipment & Parts Industry <i>Used in Metro Index</i>	ABS Producer Price Indices Table 11 - Prices of Articles Produced by the Transport Equipment & Parts Industry	Metro Parts Cost Index <i>Metro Cost Experience</i>	Combined Metro Vehicle, Tyres & Parts Costs Index <i>Metro Cost Experience</i>	Hobart CPI
Dec-97	94.5	93.2			95.8
Mar-98	95.0	94.0			96.0
Jun-98	95.9	95.0			96.4
Sep-98	96.6	96.5			97.1
Dec-98	95.5	96.7			97.0
Mar-99	94.9	97.1			96.5
Jun-99	95.4	96.9			96.8
Sep-99	96.1	97.4			97.5
Dec-99	98.0	98.4			98.0
Mar-00	98.0	98.9			99.1
Jun-00	100.0	100.0	100.0	100.00	100.0
Sep-00	100.2	100.2	100.4	100.26	103.8
Dec-00	102.0	102.2	100.7	100.36	103.7
Mar-01	101.9	102.9	102.0	101.27	104.4
Jun-01	103.5	104.2	104.1	102.36	105.5
Sep-01	101.4	105.2	103.2	102.36	105.0
Dec-01	101.7	105.8	104.1	102.60	105.8
Mar-02	101.3	106.8	106.8	103.94	106.9
Jun-02	101.1	106.4	109.1	108.42	108.3
Sep-02	101.6	106.4	110.0	109.50	108.7
% from June 2000	1.63%	6.44%	9.98%	9.50%	8.70%
% from June 2001	-1.81%	2.14%	5.62%	6.97%	3.45%

Note: Information on the Victorian vehicle equipment and parts index is not yet available.

**Figure 10.2 Comparisons Of Vehicle Equipment & Parts Cost Indices**



## 10.4 Comparisons Between the Metro Index and Other Indices

From the above analysis the main conclusion that can be drawn about indexation is that the most appropriate way forward would seem to be to use the same basic sub-indices for the private bus industry and Metro<sup>29</sup>. The weighting of those sub-indices probably ought to vary according to industry sector, according to the nature of their overall operations. However, to have a totally different fundamental approach to the indexation of bus service contracts between Metro and the rest of the bus industry does not seem to be logical.

The analysis in section 10.3 would tend to the conclusion that:

- the SBI sub-index for “labour” should be adopted for the Metro Index;
- a new sub-index for “parts and equipment” is required for both the Metro Index and the SBI (the table 11 index would be better than the current index, but the use of the CPI may be the best option);
- the Metro diesel fuel sub-index ought to be adopted as part of the SBI (which currently uses petrol prices even though 99% of buses use diesel); and
- the use of the CPI for other costs appears reasonable.

Figure 10.3 makes a comparison between the current Metro Index, the School Bus Index and an Adjusted Metro index in which:

- The Labour sub-index is replaced by the index of Metro labour costs set out in table 10.1;
- The Vehicle Equipment and Parts sub-index is replaced by the ABS index of the prices of products of the Australian transport equipment & parts industry (recognizing that this under-represents cost movements experienced by Metro).

In order to make this comparison the Metro Index itself has been recomputed to use the delivered price of fuel to Metro (average of last 3 months) rather than that price less GST and the DAFG grant. This is done in order to achieve consistency with the way in which the School Bus Index is calculated. The weightings used in calculating the Metro Index are thus adjusted to reflect these changes.

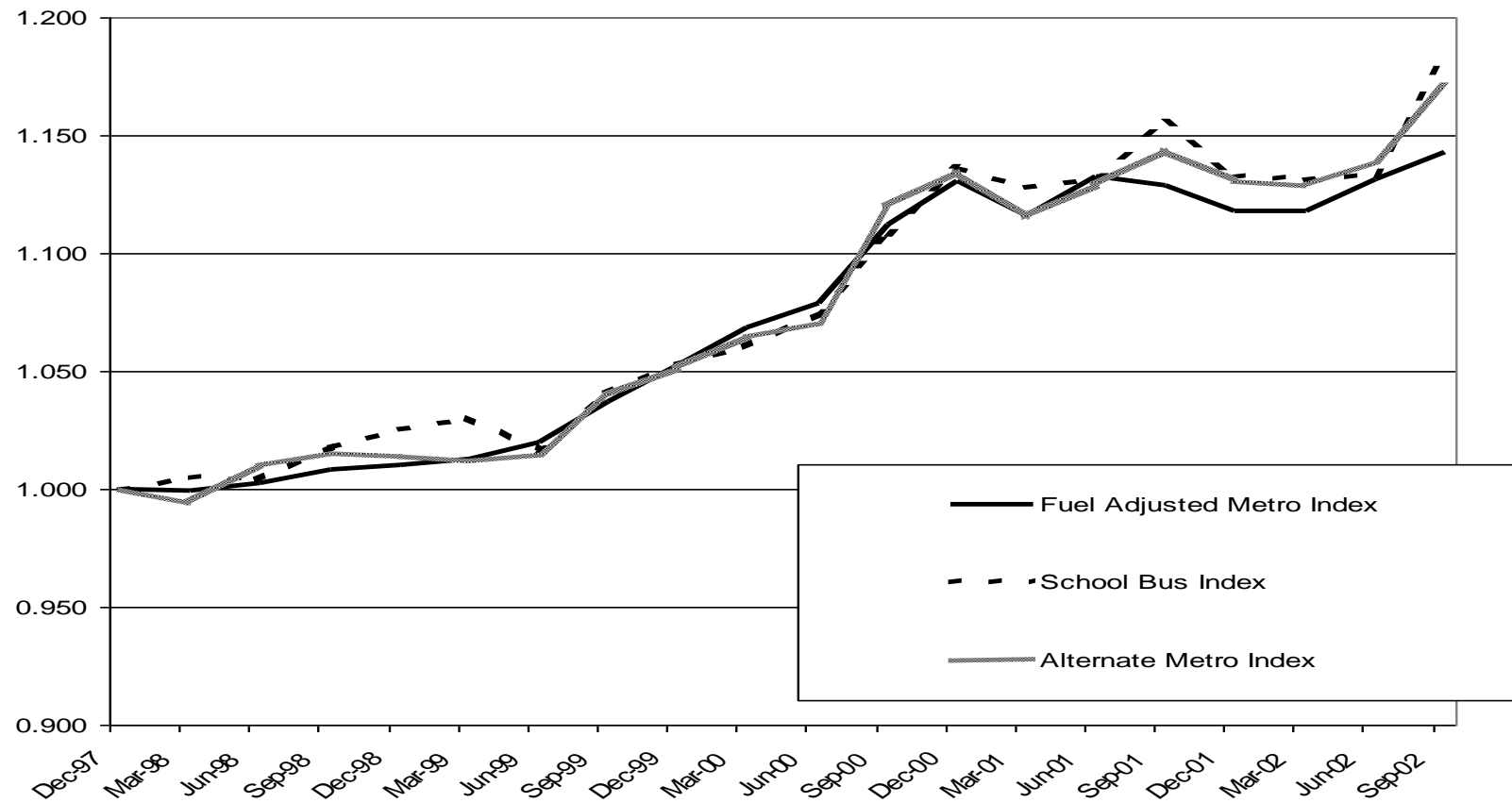
Figure 10.3 shows that the Adjusted Metro Index and the School Bus Index are very similar over an extended period of time. However, there has been a noticeable divergence with the actual Metro Index since June 2001.

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<sup>29</sup> At present contract payments for all other bus operators are indexed through the use of the School Bus Index, including (it is understood) the other Tasmanian metropolitan area bus operator, MerseyLink. Payments for route service operators through the top-up system are effectively linked to the School Bus Index as this index is used to adjust fares, and hence fare top-up payments.

It is always possible to be wise in hindsight, and so if we focus only on the period before June 2000 (the period of available data when the Metro Index was defined) there would have been no reason to select the Adjusted Metro Index over the Metro Index.

**Figure 10.3 Comparison of Bus Cost Indices**



## 10.5 Reviewing The Effects Of GST On Metro Costs.

In July 2000 major changes were made to the tax system and a new system of fuel grants was introduced (Diesel and Alternative Fuel Grants – DAFG) for commercial users of diesel in non-metropolitan areas (including the whole of Tasmania). These changes were intended to leave the bus industry at no financial disadvantage.

Consultants were engaged to estimate the effects on Metro of these changes and adjustments were made to the CSA Payment for 2000/2001 on the basis of these estimates. Similar estimates were made for the private bus industry and adjustments made to fares and Government contract payments to take account of these changes. The precise changes made varied between Metro, school contract buses and private routes services depending upon the differences in their basic cost structures. These changes were complicated by the fact that CSA Payments to Metro were classified as “appropriations” and this GST exempt, whilst many school contract services were deemed to be subject to continuing contracts which were exempt from GST for a period of time.

In the case of Metro the basic estimates of the new tax system were estimated as follows (as outlined in the 2000 GPOC report), ignoring inflation impacts:

- |  |         |
|--|---------|
| • Total Annual Revenue prior to July 2000  | \$27.3M |
| • Reduced Revenue requirements through the elimination of Wholesale Sales Tax Equivalents and introduction of the DAFG rebates | \$1.4M  |
| • Revised Revenue Requirements to be no worse off  | \$25.9M |
| • Revised Revenue as % of Pre July 2000 Revenue  | 94.8%   |
| • Implicit cost saving from New Tax System (100-94.8)  | 5.2%    |
| • Add 10% GST to Revised Revenue Requirement (1.1 x 94.8%)   | 104.3%  |
| • Resultant Increase in Revenues Required  | 4.3%    |

In the case of Metro fares were adjusted by 4.3% but the CSA Payments were actually reduced (ignoring inflation adjustments) to take into account the fact that GST was not payable on appropriations. Metro was left to adjust other revenue streams to leave themselves no worse off.

A similar process of adjustment happened for the private bus industry, although it was estimated that the savings were smaller. Savings of 4.9% were identified for private route services (vs 5.2% for Metro) and 4.0% for school contract services.

As with any major change in industry cost structures it is necessary to return after the event to see if the estimated impacts actually materialized and whether the adjustments that were made have turned out to be valid or not.

The Department has received a detailed submission from the Tasmanian Bus Association regarding the actual outcome for the private bus industry. It is

understood that these submissions were largely along the lines that whilst the bus industry has benefited from the introduction of the DAFG scheme the predicted benefits associated with the abolition of Wholesale Sales Tax (or Wholesale Sales Tax Equivalents in the case of Metro) have not eventuated.

This argument has been accepted by the Department and as a consequence it has been agreed that the effective saving associated with the new tax system was in fact only 2.5%. This has had the effect of fares and contract payments being increased to compensate for the under-provision for the impacts of the New Tax System on bus industry cost.

The same arguments are valid for Metro and as a consequence it has been estimated that the actual savings for Metro were only 4.0% rather than 5.2%. The consequence of this is that there ought to be a once off adjustment to the Metro Index by 1.2% ( $96.0/94.8 - 1$ ) in order to properly compensate Metro for the full effects of the new tax system, as well ensuring that it is treated on an equitable basis to the private bus industry. A submission was presented to the Department on this issue in November 2002 following the Department's acceptance of industry arguments on this point.

The issue is raised in this submission in that it relates to the Metro Index, and the terms of reference of the Commission in ensuring that the Metro Index properly reflects Metro's costs. The consideration of this issue needs to take into account the other matters raised by Metro in this submission, given that all have an influence upon the value of the Metro Index and its use in determining Metro's CSA Payment.

## 11 SUMMARY AND CONCLUSIONS

In Section 1.1 the main elements of the terms of reference for the 2003 GPOC Review were identified as:

- Pricing Policies – review the pricing policies associated with the provision of scheduled route services in Hobart, Launceston and Burnie.
- Efficiency – review the efficiency with which public transport services are currently delivered by Metro.
- Effectiveness of services – review the effectiveness of the services delivered and the pricing policies adopted by Metro, in terms of delivering the public transport outcomes that the Government wants.
- Indicators – develop performance indicators of efficiency and effectiveness and consider Metro’s performance by comparison to others, both within Tasmania and elsewhere in Australia.
- Effectiveness of purchasing arrangements - review current arrangements the Government has for purchasing services from Metro, including the incentive mechanisms, to ensure that the Government gets what it wants.
- Funding for service changes – consider the impact on Metro’s costs associated with requests for service changes;
- The Metro Index – review the adequacy of the Metro Index in reflecting movements in Metro’s costs and make recommendations regarding a suitable index for the next 3-5 year period.

This section aims to summarise the main conclusions reached in this submission with respect to these components, as well as to some general matters.

### 11.1 Pricing Policies

Section 5 summarises the essential elements of Metro’s current fares policies.

Ultimately, under the purchaser-provide model that has been adopted by the Government for the delivery of public transport services, it is the Government that determines the overall fares policy that Metro adopts. The “metropolitan” area fares policy set out in Metro’s contract also applies to the other “metropolitan area” public transport provider in Tasmania, Merseylink (the contracted operator for Devonport).



Within this overall policy framework Metro can, and does, make modifications to encourage overall patronage. An example of this has been the change in the time constraints placed on the use of day tickets enabling their use at any time after 9:00 am, whereas previously they had not been able to be used in the afternoon peaks as well. This initiative introduced in July 2000 had a significant impact on patronage levels.

Changes to the fares policy will impact both the levels of patronage and the net costs of service delivery. Many possible options could involve reductions in overall fare revenue, and hence increases in the net cost of operating Metro services (that is total costs less fare revenues). Provided that the CSA Agreement is adjusted appropriately Metro can accommodate whatever fares policy the Government wishes to apply, subject only to the limitations inherent in the ticketing system. Metro is currently planning to replace its ticketing system before the end of the 2003/2004 financial year. A new smart-card based ticketing system will enable a much more flexible approach to fares policies.

There are currently a number of inconsistencies between the fares policies that apply for rural and regional fare paying route services delivered by the private sector and the fares policies that apply for Metro (and Merseylink).

There would appear to be merit in developing a timetable for resolving these inconsistencies to take advantage of the greater flexibility that a new ticketing system will bring, prior to the commencement of the next CSA Agreement in July 2004.

Some of the issues that need to be addressed in this process include:

- Clear fares policies for rural and regional services on the one hand and metropolitan area services on the other. There are numerous examples of crossover between Metro and private operators, the resultant pricing structure delivers many inequities and inconsistencies.
- The extent to which distance based fares should apply – should child and concession fares also be distance based, as well as those for full-fare adults;
- The manner in which distance based fares apply - so that there is reasonable consistency between the distance travelled and the fare paid using a fare formula that incorporates a flagfall and a distance component, whilst passengers transferring from one bus to another are not penalised.
- Should child fares be the same as concession fares or student fares?
- Should the eligibility criteria for concession fares be the same for Metro and for other bus operators?

It is recognised that many of these issues are beyond the scope of the current GPOC review, which is focused on Metro's pricing policies. However, in many cases it is not possible to look at pricing policies for Metro without taking into account the pricing policies for public transport generally, otherwise inconsistencies will be created from the users' perspective.

It is also recognised that fares policies and funding support policies for Government are necessarily linked, and that Government has limited resources available. If there are over-riding budgetary constraints (such as budget neutrality) it is important that these are clearly defined. Such policies may limit the extent to which alternative fares policies can be realistically pursued.

In assessing alternative fares policies, there is a need to consider the social impacts of any changes. Many of Metro's passengers have limited resources or no access to alternative means of transport. Any significant increases in fares will have a detrimental impact on such groups.

## 11.2 Efficiency

Since the mid 1990's Metro has focussed considerable effort on improving its efficiency. The evidence of the success of those efforts is now clearly evident.

Additional information on this important issue will be provided once the report from the independent consultant, INDEC, has been received. This will provide an up to date assessment of the relative efficiency of Metro's operations by comparison to other service providers around Australia.

In its 2000 Review the Commission recognised that Metro had become the most efficient public sector service provider in Australia, but was generally less efficient than mainland urban private sector operators. They concluded that if Metro's services were tendered then the lower operating costs of the private sector in Tasmania would prevail resulting in savings to Government. Such a conclusion needs thorough evaluation because:

- Tendering bus services in the metropolitan areas to the private sector will require the Government to pay an appropriate commercial return on the capital resources employed by the successful tenderer. At present Metro is funded on a "break-even" (no profit) basis with no provision made for a return on equity.
- Decisions of the Federal Court of Australia (FCA 1683) imply that introducing Transport Workers Union or other award conditions to current Metro employees by a new employer following the tendering of a contract to undertake Metro's current services (or by any other means of transferring the business) could only be achieved through an agreement with the employees concerned (through their representatives) regarding the transition to the new employment conditions. There could thus be significant transitional costs in such a change as well as the seeds of potential longer-term industrial relations issues.
- Experience in other states where tendering has occurred is that a number of costs are transferred to the Government sector and "hidden" within Departments of Transport; and

- Where tendering results in contracts being awarded at below long-term sustainable costs one of two things will happen; Government will have to make additional payments to the operators to enable them to continue to operate or else alternative operators will have to be brought in later at higher cost levels.

Metro believes that it is an efficient bus operator delivering services to the Tasmanian community in a very cost-effective manner. The evidence supports this conclusion. Table 4.1 clearly shows that in real terms the total costs of Metro's operations per bus kilometre have fallen by one third since 1990.

Table 4.1 also shows the recent declines in "ownership costs" (depreciation and debt). With the commencement of a major vehicle replacement program and the replacement of the ticketing system in the near future, this trend may well change.

### 11.3 Effectiveness

It is not a simple task to define effectiveness and then draw firm conclusions about how effective Metro is.

The starting point must be defining precisely what it is that the Government wants from Metro, and then measuring how well Metro has performed in achieving this.

Currently effectiveness is defined in general terms with a particular focus on:

- Meeting the underlying travel needs of client groups; and
- Quality and customer service in service delivery.

Ultimately Metro's ability to meet the travel needs of its client groups is reflected in its patronage levels. However, there are also a wide range of external factors that can influence patronage levels such as:

- The availability of private transport;
- Car parking charges and parking availability;
- Changes in local population levels, employment and demographics;
- Overall economic conditions;
- The weather; and
- The over-riding budget constraints of Government in determining the level of service that is purchased.

In 1999 Metro engaged internationally renowned consultants Booz Allen Hamilton to undertake a study to analyse passenger trends and make forecasts of future patronage levels.

Historically, Metro has experienced a trend decline in patronage levels of around 2.5% per annum and Booz Allen predicted that this trend would continue over the next 15 years. By comparison Metro has achieved changes in patronage levels that are better than this long-term trend for the last three financial years<sup>30</sup>. Whilst this result is commendable there are too many factors involved in determining the eventual level of patronage to be able to quantify with any degree of reliability the influence of Metro on this result by comparison to other influences. This makes it very difficult to measure “effectiveness” in precise way.

Metro undertakes regular surveys to establish customer satisfaction with its services. These show that Metro rates highly, which appears to support the better than trend patronage outcomes recently.

Once new monitoring technology is introduced Metro will be able to more accurately measure, and hence manage, the on-time performance of its buses. Reliability is an important aspect of “effectiveness”.

Overall the evidence indicates that Metro is effective in what it does, notwithstanding the difficulties in defining and measuring “effectiveness”.

## 11.4 Purchasing Arrangements

There has been a general move to the application of service contracts and the “purchaser-provider” model in the delivery of regular public transport services.

There are differences in the contractual and funding arrangements of Metro compared to private sector bus operators. It is not clear that there need to be such differences.

The Government has decided against a system of periodically tendering service contracts and instead favouring a system of rolling over established contracts provided benchmarks are achieved. This process is evolving, but should help clarify the expectations that Government has of Metro and other public transport service providers in return for Government funding support.

It is considered that more can be done to provide appropriate incentives (and disincentives) within the contract system to encourage the delivery of the outcomes that Government wants.

Options include:

- Penalty and bonus payments associated with “on-time” performance;
- Making a proportion of contract payments based on passenger numbers;
- Providing incentive payments for “quality of service” initiatives such as the average fleet age, or the proportion of buses that are DDA compliant, or

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<sup>30</sup> In 1999/00 passenger levels declined by 0.7%, in 2000/01 they increased by 2.3% and in 2001/02 they declined by 0.6%.

the proportion of the workforce achieving certain training competencies, by comparison to specified benchmarks.

However, for an incentive based system to be fully effective there needs to be:

- A move to funding Metro on a fully commercial basis with an allowance for “profit” or return on capital/equity. This would allow Metro to be measured by this normal “yardstick” of commercial performance as well as providing a buffer to even out the variability that can occur from year to year.
- Acceptance that in a budgetary sense Metro contract payments cannot be accurately predicted and a “break-even” result achieved if there are some incentive payments within the CSA Agreement. By definition the level of CSA Payment would reflect performance, and thus could vary.

These two matters go hand in hand.

## 11.5 Metro Index

The Metro Index was introduced following the 2000 GPOC Review. The objective was to define a cost index that better reflected Metro’s underlying costs rather than using the Consumer Price Index (which had been previously used).

The evidence presented in this submission shows that there have been some teething problems with the Metro Index and as such changes need to be made.

Overall Metro’s view is that the Department has a range of bus contracts to administer. The main cost elements of the different sectors of the bus industry are moving in a very similar fashion<sup>31</sup>, although the contribution of each cost component to the total cost of any given operation may vary.

It would seem reasonable that the Department could have a number of unit cost indices to reflect the movements in different cost components, and could give these unit cost indices different weightings to reflect differences in the nature of the bus operations involved.

In this way the Department would utilise the same basic indices to adjust all service contract payments using weightings that reflected actual operating costs for each operator. At the moment the Department uses the School Bus Index to adjust all operator payments, apart from adjustments to Metro’s CSA Payment that uses the Metro Index.

Such a system would be a simpler to administer.

The specific problems that Metro has identified with the Metro Index that need to be rectified include:

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<sup>31</sup> Whilst there may be differences in unit costs (such as different prevailing awards) and the mix of costs, it is the trends in each cost element that is of prime importance for developing a cost index.

- The vehicle parts and equipment index does not properly reflect industry costs in this area (Table 10.2 shows significant divergences between the ABS cost index used and Metro's actual costs).
- In setting up the Metro index certain assumptions were made about potential savings through the New Tax System and these were built into the way that the Metro Index was defined and the initial CSA Payments calculated. There have been a number of problems identified relating to differences between the expected outcomes and the actual outcomes. The biggest difference relates to the effects of the removal of Wholesale Sales Tax and its expected impact on the costs of vehicle parts.
- The ABS cost index used to measure movements in Metro's labour costs has been found to be significantly different to Metro's actual costs (particularly the timing of changes in the Superannuation Guarantee percentage). The SBI labour sub-index would seem to be a more relevant measure.
- Metro fuel costs are determined through a competitively tendered Government contract and provide a reliable measure of bus industry fuel costs (in terms of delivered Tasmanian diesel prices). This index could be used more generally for the bus industry.

Section 10 shows that the problems identified above have had a compounding and negative impact upon Metro's results since late 2001 and will continue to place substantial pressure on Metro financially until these problems have been analysed and resolved.

As with all indices there will be problems caused by lags and delays. As Metro is currently funded on a "break-even" basis this causes specific problems when the increase in costs occurs in one financial year and the response, in terms of adjustments to contract payments, occurs in the next. This would be less of an issue if Metro's contract payment allowed for a return on equity.

## 11.6 General Matters

Metro has been listed as a monopoly service provider under the *Government Prices Oversight Act* and is thus subject to periodic review by GPOC.

Whilst Metro welcomes independent scrutiny of its performance we also believe that Metro is no more, and no less, of a monopoly service provider operating under a government contract than are other public transport providers such as Hobart Coaches, Redline or MerseyLink<sup>32</sup>.

If the government is interested in the cost-effectiveness of its investment in public transport through the purchasing of services from Metro then it is probably

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<sup>32</sup> That is to say operators providing regular passenger transport services that would not operate without the government funding support provided through fare top-ups or specific contract payments.

equally interested in its investment in services purchased from other operators as well.

In section 7 of this submission consideration is given to infrastructure and other “non-service” costs. Metro is of the view that responsibility for some of these expenditures probably rests more appropriately with others. Some mechanism is required to consider the extent to which Metro should accept such expenditure responsibility. Examples include:

- The provision of bus shelters and related infrastructure;
- The funding of security services for public transport; and
- The funding of GPOC’s cost for periodic reviews of Metro pricing policies.

The rules that apply to Metro in this regard should be the same as those that apply to the private bus operator undertaking a fare paying route service under contract to the Department. Consistency in the treatment of bus operators is the key to consistency in public transport policy.



**ATTACHMENT A: TERMS OF REFERENCE**

Terms of Reference are outlined below for the investigation to be conducted by the Government Prices Oversight Commission ("the Commission") into the pricing policies of Metro Tasmania Pty Ltd ("Metro") and their appropriateness by comparison to the pricing policies of other urban public transport service providers.

These Terms of Reference address each of the issues outlined in section 25 of the *Government Prices Oversight Act 1995* ("the Act").

**The Functions and Other Activities of Metro**

The principal function of Metro is to provide road passenger transport services in Tasmania and to operate those services in a manner consistent with sound commercial practice (section 5 *Metro Tasmania Act 1997*).

The primary activity of Metro is to provide urban public transport services within designated areas within the greater Hobart area, Launceston, Ulverstone and Burnie as specified in their Community Service Activity Agreement with the State (which runs to 30 June 2004). The Agreement also states the fares policies that are to be applied and requires that Metro operate in a pro-active manner to promote and develop services consistent with the provisions in the Agreement.

**Services to be Investigated, Metro Pricing Policies and Incentives For Serving Passengers**

The Commission is to investigate the pricing policies associated with the provision of the current scheduled route services by Metro in the designated metropolitan areas of the greater Hobart area, Launceston and Burnie and the town of Ulverstone. The Commission should also consider the impact on Metro's costs that would arise from any request for changes to the current route services.

Metro's fares policy is specified within the Community Service Activity Agreement between the Government and Metro. Metro obtains approximately 25 per cent of its total revenues from passenger fares, the remainder of its revenue being provided by the Government under this Agreement.

The Commission should review the appropriateness of Metro's pricing policies and draw conclusions from comparisons with the urban public transport pricing policies of other operators, both within Tasmania and elsewhere in Australia. Any proposals to modify Metro's pricing and fares policies should include an assessment of the financial and patronage implications.



**The Efficiency and Effectiveness With Which Public Transport Services Are Delivered By Metro**

In investigating the pricing policies of Metro, the Commission is to consider, where relevant:

- the efficiency with which public transport services are currently delivered by Metro; and
- the effectiveness of the current arrangements between Metro and the Government, including the incentive mechanisms, for purchasing services, having regard to the cost of delivery and service levels.

The Commission should consider the financial and patronage implications and appropriate arrangements for the purchase of services from Metro by the Government having regard to the incorporation of suitable indicators for measuring efficiency and effectiveness to measure the achievement of shareholder expectations including the cost of delivery and service levels.

The Commission should consider the effectiveness of the role and services delivered by Metro in terms of the Government's objectives as represented by the Shareholder Expectations at Attachment A1, and the role of the Community Service Activity Agreement in achieving this outcome. In doing so, the Government requests that, as part of this investigation, the Commission identify, and provide advice on, suitable indicators for measuring both the efficiency and effectiveness with which public transport services are delivered by Metro, and make comparisons using these measures with other relevant operators both within Tasmania and in other parts of Australia.

Any measures developed should be capable of adaptation for incorporation into future Community Service Activity Agreements to maintain a focus on the continuing efficiency and effectiveness of service provision. Performance against these measures could also form part of Metro's reporting obligations to shareholders and, subject to commercial confidentiality needs, could also be reported on in Metro's annual report.

**Additional Matters: the Metro Index**

As part of the 2000 review of Metro's pricing policies the Commission developed the Metro Index as a basis for allowing adjustments to Metro's adult fares under the terms of the Pricing Order. The index was also adopted by the Department as the basis for adjusting Metro's Community Service Activity payments.

The Commission is to review the adequacy of the Metro index in reflecting Metro's costs and make recommendations as to the need to make modifications to this index in order to effectively reflect changes in Metro's input costs for the next 3 to 5 years.

### **The Date of Completion**

The Commission is to provide a copy of the Final Report required under section 35 of the Act in respect of the Metro investigation by 1 April 2003.

### **Requirement for the Commission to Make Recommendations**

The Final Report provided by the Commission under section 35 of the Act must contain recommendations in relation to appropriate maximum prices (as defined in section 4 of the Act), and an appropriate mechanism to adjust such maximum prices, to enable Metro to deliver the defined services during the period of three years after the completion of the Final Report.

### **Draft Report**

At an appropriate time during the investigation, the Commission is to make available a draft Report.

**Attachment A1**

**Shareholder Expectations**

The Government, through its Shareholder Ministers, expects that Metro will:

- develop and provide safe, reliable and fair public transport services that are well suited to meeting the travel needs of its main client groups, being:
  - students travelling to and from school; and
  - persons travelling to and from main employment centres;
- provide travel opportunities to access services and facilitate social interaction for those in the community without access to private means of transport;
- effectively integrate with other public transport services, including taxis, where sufficient customer needs exist; and
- ensure a suitable focus on customers and quality in service delivery.

**ATTACHMENT B: THE DIFFERENCES IN CONCESSIONAL FARES**

	<b>Metro</b>		<b>Hobart Coaches</b>	
<b>Passenger Category</b>	<b>Concession</b>	<b>Comment</b>	<b>Concession</b>	<b>Comment</b>
<b>Children</b>				
Primary / Secondary Student – free travel pass holders	Free	Travel to and from school	Free	Travel to and from school
Primary / Secondary Student	\$1.20 or \$9.60 for ten-rides or \$38.40 monthly:	Flat fare for all travel	30 cents	Travel to/from school
			50% of adult fare	Other travel – increases with distance
Under school age	Free	Under 5	Free	Under 4
<b>Adults</b>				
Health Care Card holders	\$1.40 single \$11.20 Metro 10 or Daytrippers	Flat fare travel - ; Day tripper provides all day travel after 9:00 am	50% of adult fare	YA, NS, WA, LI school students only
Health Benefit Card holders			No concession	All Fares increase with distance
Centrelink or Veterans Affairs Pensioner Card holders			50% of adult fare	
Persons aged 70 or over			See Seniors	
War Widows			50% of adult fare	
<b>Tertiary Students:</b>				
Full-time students	\$11.50 Metro 10 or \$46.00 Metro monthly	Flat fare travel. Single trips as per adult fares.	80% of adult fare	Company discount – not DIER policy
			30c	Travel to/from TAFE more than 40 Kms
<b>Seniors</b>				
Seniors Card Holders	\$2.30	All day travel. Otherwise adult fares	90% of adult fare	Company discount – not DIER policy
<b>Other Categories</b>				
Tasmanian Police Officers in uniform	Free travel in uniform – no ticket required.	No ticket required	No concession	
St Johns Ambulance personnel				
Blind persons plus attendant	Free travel		50% of adult fare	Attendant pays full fare
World War One veterans and spouses	Free travel	Ticket issued	50% of adult fare	
TPI pensioners.	Free travel	Ticket issued	50% of adult fare	